

**IMPLEMENTATION OF INNOVATION STRATEGIES AT NEW
KENYA CO-OPERATIVE CREAMERIES LIMITED IN RESPONSE
TO CHANGES IN THE EXTERNAL ENVIRONMENT**

BY

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DECLARATION

I declare that this research project is my original work and has not been submitted for a degree in any other university for purposes of examination.

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

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DEDICATION

I would like to dedicate my research project to my wife Beatrice Karambu, my children Ryan and Geena for their support during this study.

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I thank God almighty who has brought me this far and providing me with strength, wisdom and vitality that has helped me to make this research study a reality. Secondly, I would wish to thank my family for moral support, encouragement and their understanding when I was not there for them during the project period.

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TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGMENT	iv
ACRONYMS AND ABBREVIATIONS	vii
ABSTRACT	viii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Concept of Innovation Strategy	2
1.1.2 External Environment.....	3
1.1.3 Kenya’s Dairy Industry	4
1.1.4 New Kenya Co-operative Creameries	6
1.2 Research Problem	7
1.3 Research Objectives.....	9
1.4 Significance of the Study	10
CHAPTER TWO: LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 Theoretical Foundation	12
2.2.1 Resource Based Theory	12
2.2.2 Diffusion of Innovation Theory.....	13
2.2.3 Contingency Theory	15
2.3 Innovation Strategies and Changes in the External Environment	16
2.4 Summary of Knowledge Gaps	18
CHAPTER THREE: RESEARCH METHODOLOGY	20
3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Data Collection	20
3.4 Data Analysis	21
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION	23
4.1 Introduction.....	23
4.2 The External Environment affecting New KCC.....	23

4.3 Innovation Strategies Adopted by New KCC due to Changes in the External Environment.....	27
4.3.1 Marketing Innovation Strategies	29
4.3.2 Product Innovation	30
4.3.3 Process Innovation Strategies.....	32
4.3.4 Other Innovation Strategies	34
4.4 Secondary Data Analysis	35
4.5 Discussion of Findings.....	36
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION	40
5.1 Introduction.....	40
5.2 Summary of Findings.....	40
5.3 Conclusion	42
5.4 Recommendations for Policy and Practice	43
5.4.1 Recommendations for Policy.....	43
5.4.2 Recommendations for Practice.....	44
5.5 Limitations of the Study.....	44
5.6 Suggestions for Further Research	45
REFERENCES.....	47
APPENDICES	i
Appendix I: Cover Letter	i
Appendix II: Interview Guide.....	ii
Appendix III: Interview Schedule Detailed Findings	iv
Appendix IV: New Kcc Financial Statement.....	xiii
Appendix V: Milk Value Chain.....	xv
Appendix VI: Current Milk Intake	xvi
Appendix VII: Milk Supply Demand Projections (2010-2030)	xvii
Appendix IX: Innovation Turnaround Strategy Plan.....	xviii
Appendix X: NEW KCC New Products	xviii

ACRONYMS AND ABBREVIATIONS

ABS	-	American Breeders Services
EPZ	-	Export Processing Zone
HPI	-	Heifer Project International
KCC	-	Kenya Co-operative Creameries
NGO	-	Non-Governmental Organization
OECD	-	Organization for Economic Co-operation and Development
RBV	-	Resource-Based View
SOAR	-	Strengths, Opportunities, Aspirations and Results

ABSTRACT

Competitive and volatile business environment requires organizations to continuously monitor and adjust their strategies in relation to the changes in the environment and hence create competitive advantage. Scholars have pointed out that innovation strategies tend to significantly improve how organizations respond to changes in the external environment. However, other scholars argue that innovation strategies if not well implemented can limit an organizations success through additional costs which are incurred during the formulation of the innovation strategies that may impact negatively on the returns. It is also not clear from the available literature, whether innovation strategies can exclusively mitigate the challenges caused by unfavorable changes in the environment or ensure maximum utilization of opportunities presented by such changes. The study sought to determine the innovation strategies implemented by the New Kenya Co-operative Creameries in response to changes in the external environment. The study used a case study design where New Kenya Co-operative Creameries was studied. The study employed primary data and secondary data. The primary data was collected by use of interview guide with the key respondents being the managers and departmental heads in the firm while the secondary data was collected using document analysis. The data was analyzed using content analysis and presented in narratives and verbal quotations. The study found out that the external environment of New Kenya Co-operative Creameries is highly unpredictable and competitive. The main innovative strategies adopted by New Co-operative Creameries were found out to be market innovative strategies, product innovative strategies and process innovative strategies. The study further found out that these innovation strategies influenced how New Kenya Co-operative Creameries responded to the external environment and attaining competitive advantage. The study thus concludes that the current competitiveness and profitability at New Kenya Co-operative Creameries is largely accounted for by the available innovation strategies. The study also concludes that the innovative strategies adopted by New Kenya Co-operative Creameries play a crucial role in predicting and managing the external environmental factors by New Kenya Co-operative Creameries. The study therefore recommends that the management at New Kenya Co-Operative Creameries to undertake regular and frequent scanning of the external environment. This will enable them to identify and predict the trends both in the dairy industry and the remote environment. The study further recommends that New Kenya Co-operative Creameries should consider implementing additional innovation strategies in their operations. To enable generalization of the study findings, it is therefore suggested that further studies to be conducted on other companies. The study contributed to theory by confirming the validity of resource based theory, diffusion of innovations theory and contingency theory in guiding implementation of innovation strategies in response to changes in external environment. The study also contributed to bridging the gap on how implementation of innovation strategies is conducted and how it affects organization performance. The study also contributed to the strategic management practice by guiding the management of New Kenya Co-operative Creameries and organizations at large on implementation of innovation strategies to achieve best results.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The environment where businesses are operating has become extremely competitive and dynamic (Dominello & Roberts, 2016). This has made it challenging for organizations to sustain their performance and secure their survival (Ngweshi, 2016). In response to the challenges in the market, firms have been forced to adopt innovative strategies and search for more robust ways of enhancing their performance (Pearce & Robinson, 2010). Innovation strategies require firms to examine the external environment in a creative way and obtain solutions or techniques to addressing the challenges or opportunities identified (Shaw, 2012).

This study was anchored on the Resource Based Theory by Wenerfelt (1984), Diffusion of Innovation Theory by Rogers (1962) and Contingency Theory by Miller and Friesen (1983). According to resource based view, ability of the firm to compete lies with its ability to use and apply its resources for innovation and value creation (Drees & Heugens, 2013). Diffusion of innovation theory explains how various innovation strategies within the economic environment have been adopted and used in the firm in response to the external environment (Dearing, 2009). According to contingency theory, the environment in which organizations operate in is constantly changing. For organizations to have competitive advantage, firms must be able to adjust their strategies and make sure they are in line with the environmental changes (Donaldson, 2001).

The changes in the external environment of the New KCC has made its operations and market to be more unstable, erratic, and more competitive. The dairy industry has traditionally been dominated by few players including KCC and Brookside. However,

lately, there has been changes in the external environment including entry of new players making the dairy industry more competitive (Ndolloh, 2016). Thus, New KCC is facing a challenge of losing market share to the new entrants in the dairy industry (FAO, 2017). Therefore, it was important to investigate how the drastic changes in the external environment surrounding New KCC forces it to innovate new strategies so as to thrive and remain dominant in the market.

1.1.1 Concept of Innovation Strategy

According to Lionnet, (2003), innovation strategy refers to adopting new and more advanced product and services aimed towards expanding the firm's share of the market, profitability and generally organization performance. In a similar way, Ngweshi, (2016) defines innovation strategy to be the development and marketing new products and services that add value to the customers by meeting their needs at the right time in a convenient and efficient manner than that offered by competitors. The innovation strategies are consultative, considers the environment and is interactive seeking to facilitate the organization in the accomplishment of its short and long term objectives (Lundvall, 2007).

Innovative strategies push firms to look beyond the organization, industry or geographical location and come up with business models that are creative and competitive (Ngweshi, 2016; Laforet, 2008; Pearce & Robinson, 2010). These strategies are premised on value addition from product design, development, marketing, supply chain and after use (Ting, Wang, & Shin, 2012). According to Porter (2004), innovation strategies occur as a result of the need to create competitive advantage and that a strategy cannot be innovative if it does not lead to competitive advantage in a specific industry,

improve organization capabilities and resources (Polder, Leeuwen, Mohnen, & Raymond,2010).

Firms can use innovations strategically to address changes in the local as well as global business environment (Hitt *et al.*, 1998; Ireland &Hitt, 1999). Innovations can also be adapted to respond to changes in tastes, demand, performance level demands and organization growth needs (Ngweshi, 2016).Therefore, innovation strategies are crucial ingredients in ensuring organizational survival and enhance its relevance in their business environment and for proper strategic management (Porter, 2004). In this study, the innovation strategies investigated included the product innovation, process innovations, structural innovations and marketing innovation strategies that have been placed by New KCC in coping competition.

1.1.2 External Environment

The external environment refers to the factors that are beyond the control of the organization but which influence the organization operations (LeeAnn, &Kung, 2014). Similarly, according to Ting, Wang and Shin, (2012), since business do not function in a vacuum, they have to act and react to what ensues outside the plant and office walls and this constitutes its external environment. This focuses on customers, suppliers, competitions, regulations, complexity, dynamism, and munificence surrounding the organization. Bönnte, and Dienes, (2013) further categorize external environment into two groups namely; task and general environment. General environment involves the external surrounding of the firm while task covers external forces with direct impact from the industry or external environment(Ting, Wang &Shin, 2012).

External environment affects the core functions of the business and possibly the objective of the business and its strategies and therefore it must be taken into consideration(Hitt et al., 2013). The main components of the external environment have been established to be economic, technological interactions of the organization with the suppliers, competitors and business partners. Further, an additional component of external environment is the legal and administrative environment whether the firm operates (Mason, 2013). Technological environment consist of the level of adoption of information, political environment consist of the level of politics in a country while the economic environment entails the income levels of the population in which organizations operate (Kupp & Anderson, 2013).

Empirical findings have supported that the external environment highly determines how organizations perform (Bierly & Daly, 2013). In this regard, various strategies have been innovated by firms so as to mitigate any uncertainties posed by the external environment. Bönnte and Dienes (2013) argue that firms following the paying attention to external environment strategy were able to adopt innovative strategies and increased efficiency in production. Similarly, Ting et al (2012) indicated that external environment affected performance of the firm and also innovation strategies. The findings thus indicate the importance of external environment in driving innovate strategies.

1.1.3 Kenya's Dairy Industry

The dairy industry in Kenya is the most advanced and developed in East and Central Africa in terms of capacity and the players in the industry. The industry plays crucial role in the Kenyan economy including feeding the society of the nutrients they need most, creation of employment and contribution to Kenyan Gross Domestic Product by six to

eight percent. The industry accounts for fourteen percent of agriculture sector contribution to GDP (KDB, 2016). Directly and indirectly, the dairy industry creates approximately 1.5 million jobs annually. To these population, the industry is the source of livelihoods (Kiveu, 2013). The supply chain of the dairy industry consist of mainly the small scale farmers, co-operative societies who package the products and distributors. An interesting trend in the industry is that most of the milk produced at eighty four percent is sold in raw form without being processed (KDB, 2016).

However, in spite of the important role played by the industry in the Kenyan economy, the industry continue to face challenges of competition and ever changing tastes and preferences by the customers. The competition is mainly from the many small scale processors (Rademaker, Oosting, & Jochemsen, 2018). Other limiting factors for the industry include fluctuations in production and therefore prices of the produced milk, high costs of production including electricity, poor roads and hence inability to transport the product to the preservation zones, lack of preservation equipment, poor animal husbandry hence low quality of milk produced, and lack of well-established markets. Further, most of the farmers are small scale and therefore lack the ability to streamline the industry (Atieno, & Kanyinga, 2008).

The advancement and affordability of milk preservation apparatus have led to the sprouting of small dairy firms which have significantly affected the market prices and heightened competition in the market. Technological advancement have also made it easier to store and process milk while maintaining its quality. The Kenyan dairy industry is mainly dominated by few big processors including the New KCC and Brookside (KDB, 2016). This creates an opportunity for the big processors to grow their market

share since they have the resources and the customer goodwill. This implies that the big players would find it easy to introduce new products or offer solutions to challenges facing farmers including provision of equipment for milk storage and hence increased supplies. Also since most of the product is consumed raw, running campaigns on the dangers of consuming raw milk would further grow the use of the milk processed by the operators (Afmass Kenya, 2017).

1.1.4 New Kenya Co-operative Creameries

Kenya Co-operative Creameries is a state owned corporation that was established in 1925 with the aim of supporting dairy industry by offering small scale farmers with a platform to sell their milk (Rademaker, et al., 2018). The company had played a vital role in the Economic Revival Strategy for Kenya as the dairy company registered a non-tax estimated profit of half a billion Kenyan shillings in 2007/08 financial year from an astounding eight million shillings' loss in 2005/06 financial year (Ngati, 2009). However, the company has not been performing as well as expected despite it being renationalised and repurchased in 2003 to New KCC (Ndoloh, 2016). The New KCC, which constitutes one of the main dairy industries in Kenya has grown from strength to strength and has begun registering profits in a complex and turbulent dairy sector (New KCC, 2017).

The Company was registered as a state corporation in 2005 and was mandated to ensure the Kenyan people and beyond get adequate supply of quality milk and milk products at affordable prices. In line with this mandate, New KCC's vision is "to be the market leader in quality refreshing dairy products in East and Central Africa" (New KCC, 2017). New KCC controls approximately forty percent of the processed milk industry and has strong brands in the market well appreciated as quality products (NKCC, 2016). New

KCC has contributed immensely to improving the fortunes of dairy farmers over this period by ensuring that they have a stable market for their products.

The company is run on commercial principles, its personnel is integrated into a competitive and productive environment that is customer focused and results oriented (New KCC, 2017). However, the company is constantly faced with challenges from the external environment which pose a threat to its growth and profitability (Gitari, 2008). The main challenge being faced is stiff competition from other dairy processing firms which have increased significantly over the years. Other problems relate to the fluctuation of the business environment such as high inflation, taxation and market risk that increase the cost of production and result in diminished returns (Kimaiyo, & Ochiri, 2014). So as to curb these challenges and thrive, KCC is necessitated to constantly come up with innovative strategies in attaining competitive advantage.

1.2 Research Problem

The external environment is unpredictable and constantly changing which makes it pose an unexpected challenges to the businesses (Porter, 2004). This has seen the importance of innovation strategies increase significantly in facilitation of the accomplishment of the organizations' targets through coming up with new and better products and services. Scholars have thus pointed out that innovation strategies tend to significantly improve how organizations respond to changes in the external environment (Walker 2014; Dominello & Roberts 2016). However, other scholars argue that innovation strategies if not well implemented can limit an organizations success through additional costs which are incurred during the formulation of the innovation strategies that may impact negatively on the returns (Laforet, 2008; Kigoro, 2013).

New KCC in an increasing competition, changes in customer tastes, and supply unpredictability (NKCC, 2016). These changes in external environment are presumed to have necessitated aggressive review of strategies to ensure the company remains afloat and maintains the company market share. Further, while other public sector organization funded by the government continue to struggle to survive due to turbulent external environment, New KCC Ltd has remained stable. This motivated the researcher to look into the innovative strategies put in place by the company in response to changes in external environment.

Various empirical studies on innovation strategy and external environment have been done globally and locally. Globally, a study by McAdam & Keogh (2014) found out that adoption of innovation strategies was crucial in ensuring that firms had competitive advantage in competitive markets. Werner & Dienes (2013) studying the environmental innovations and strategies for the development of new production technologies from Europe found that only few companies adopted innovative strategies in response to changes in the external environment. Beyene et al (2016) studied the innovation strategies adopted by organizations using Ethiopia data and established that the main adopted innovative strategies were product and technological advancement innovations. In a similar way, Ngweshi, (2016) investigated the strategic innovations adopted by SMEs in Rwanda and found out that the innovation strategies adopted differed based on the industry in which the organizations operated in.

Locally, Kiveu (2013) studying the challenges of implementation of innovation strategies at the new KCC found that including change management, financing limitations, limitations in leadership, breakdown in machinery at the plants and cash flow limitations

due to huge borrowings were the main challenges. Further, Njoroge (2015) examined the innovative response strategies adopted by Sarova Hotels Limited, Kenya and found that the hotel had adopted various strategies including cost leadership, differentiation, outsourcing, product innovation and diversification. While Ndoloh (2016) studied the innovation response strategies adopted by Co-Operative Insurance Company Group Limited to changes in the external environment and found the organization had adopted innovative strategies in response to the environmental changes which included strategies on cost, marketing and product development.

A critical review of the studies show no conclusive findings as to the exact strategies to be adopted by firms. It is also not clear whether innovation strategies can exclusively mitigate the challenges caused by unfavorable changes in the environment or ensure maximum utilization of opportunities presented by such changes. The studies cited have been done in different contexts and since management is sensitive to different settings, their findings cannot be generalized to include New KCC. Thus, this study aimed at addressing these knowledge gaps by seeking to identify the innovation strategies adopted by New KCC in dealing with changes in the external environment. The study addressed the research question; which innovation strategies have been implemented by the New KCC in response to changes in the external environment?

1.3 Research Objectives

The objective of the study was to determine the innovation strategies implemented by the New KCC in response to changes in the external environment.

1.4 Significance of the Study

Management practitioners including management of New Kenya Cooperative Creameries will benefit from the study since they will understand the innovative strategies adopted by New KCC in response to changes in external environment and their effectiveness. Management of other government entities will learn from the innovation strategies adopted by New KCC and hence improve their performance. The study will also give the management of New KCC and other firms a chance to evaluate the innovative strategies adopted and implementation of the recommendations made by the study. This will further improve organization performance.

To the regulators and policy makers, the findings of this study form a basis for insightful understanding of the experiences at New Kenya Cooperative Creameries. They will be able to understand the policies to put in place to ensure that state corporations adapt to changes in the environment and sustain superior performance. The regulators will also be able to understand the policies to put in place and support innovative strategies among state corporations. Further, from the study, regulators and the government will learn of the components of a conducive external environment and ways of enhancing the same and hence achieving superior organization performance. The study will also inform decisions and policy that provide framework of operations in the dairy industry in Kenya.

The study will also add value to the literature on innovation strategies adopted in response to external environment thus forming the basis for guiding further studies on innovative strategies and external environment. Thus, researchers and scholars will use the study findings as a guide when carrying out future research. The study will also recommend areas of further research which may be considered by scholars and

researchers in planning future studies. Limitations faced in conducting this study will also be discussed and hence informing scholars doing similar study ways of managing the same.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature in relation to the study variables. The chapter presents the theoretical foundation consisting of the guiding theories and the empirical literature on innovation strategies.

2.2 Theoretical Foundation

Innovation strategies adopted by corporate entities in response to changes in the external environment are detailed by numerous theories. This study will concentrate on three fundamental theories which include the Resource Based Theory Perspective, which was first proposed by economist Penrose in the 1950s (Rugman, 2002), advanced and incorporated into strategic management by Wernerfelt (1984). Secondly the Diffusion of Innovation Theory by Rogers (1962) and the contingency theory as proposed by Miller and Friesen (1983).

2.2.1 Resource Based Theory

This theory was first conceptualized in the field of economics by Penrose (1957). Wernerfelt was the first scholar to introduce this theory to the field of strategic management. However this study will focus on the point of view of Barney (1991) who improved on the Resource based theory perspective adopted by earlier scholars. The theory is based on the premise that strategies adopted by the organization are as a result of the resources with the organization (Pfeffer & Salancik, 1978). The success of any firm according to resource based view is a function of the ability to acquire resources for survival.

Using resource based theory, a firm has four options while making strategic choices. First, the firm may survive with the resources it has and do everything in constraints of the resources. Secondly, the firm may acquire more resources by merging with others. Third, the resources could be acquired by entering into joint ventures with the external environment and fourthly, if the firm has negotiating powers, may decide to influence the environment. The theory is based on the assumption that resources are the driving force for the success of the firms (Hayward & Boeker, 1998; Drees & Heugens, 2013).

The implication of the theory is that to implement innovative strategies, resources will be important. This argument is supported by the fact that resources in terms of human resources and financing will be necessary to ensure that innovative strategies are implemented. According to Davis and Cobb's (2010) project of an internal appraisal of strengths and weaknesses, the basis of resourced based view is that of identification of distinctive competencies. Critics of this theory argue that big firms with massive resources still fail. The theory therefore aids in understanding how organizations leverage their resources, including human, technological and financial, to innovate, earn competitive advantage and respond effectively to the external environment.

2.2.2 Diffusion of Innovation Theory

The theory is related to the work of Schumpeter (1954) who is considered the father of innovation and claimed that any organization seeking profits must innovate. According to Schumpeter (1954), innovation leads to increased competitiveness and favorable economic dynamics, and that innovation is a process of business change that continuously transforms the economic structure from within. Rogers (1962) enhanced the proposition advanced by Schumpeter. The theory explains how innovation spreads across

organizations, countries or regions. The process of diffusion finishes with people learning of new ideas on products, services and processes. For diffusion to take place, people must associate themselves with the new ideas which they perceive as beneficial and adopt them (Greenhalgh *et al.*, 2014). According to diffusion innovation theory, diffusion of ideas does not just happen but follows a certain process and some people are able to adopt more innovation than others. Thus, innovation is driven by people and for innovation to take place, managers should be able to adopt to understand the salient features of a population (Dobbins *et al.*, 2011).

The diffusion innovation theory consists of four components which are the innovation, channel through which it's communicated, social system of adoption and time in which adoption takes place. Innovation is what is perceived as new, even if it has been discovered or developed some time ago (Greenhalgh *et al.*, 2014). Thus, one aspect to consider is the individual's perception about something that is introduced in the social habits. The time dimension is therefore the key issue to be considered in the theory of diffusion of innovations. It is during the time that individuals decide to adopt a different product and that one individual passes from one stage to another in the adoption process (Dobbins *et al.*, 2011).

In the present study, the diffusion of innovation theory was used to understand how various innovation strategies in use within the economic environment have been adopted and used in the firm in response to the external environment. The theory is applied to enable the understanding of how innovation strategies come into being and some of the limitations as to why innovation strategies could fail to be adopted. Further, the theory

has guided the study in terms of detailing some of the important aspects in adoption of innovative strategies like the human resource.

2.2.3 Contingency Theory

The theory was proposed by Miller and Friesen (1983). Contingency theory argues that conditions in the environment are responsible for the strategies implemented. According to this theory, there may be no single strategy for the firm to adopt in every condition. Miller and Friesen (1983) argued that success of innovation strategy lies on incorporation of environmental factors in the strategy. Dess and Beard (1984) incorporating the business environment to contingency theory explained that the success of the strategy relies on the resources and consideration of the environment in which business operate. Dess and Beard (1984) thus concluded that it was crucial to incorporate environmental factors when defining innovation strategy.

Supporting the importance of contingency theory in explaining the innovation strategies adopted by the firm in response to external environment, LeeAnn and Kung (2014) recommended that organization apply different strategies and resources and respond to changing environmental conditions. Thus, according to contingency theory, the environment in which organizations operate in is constantly changing. For organizations to have competitive advantage, firms must be able to adjust their strategies and make sure they are in line with the environmental changes. Hence, innovative strategies will come into place in response to changes in the environment and the need for the organizations to remain relevant.

2.3 Innovation Strategies and Changes in the External Environment

Innovation strategies refers to the blueprint adopted by firms in business process, products and services by application of new methods and technologies that gives the firms a competitive advantage and to create value by fulfilling the needs of the customers (Dominello & Roberts, 2016). There are four main forms of innovation strategies namely; product innovation strategy, process innovation strategy, organization structure strategy and market innovation strategy (Pearce and Robinson, 2010). These innovation strategies enable the firm to achieve constant, predictable and above average organization performance (Ngweshi, 2016).

Empirical evidence has indicated that adopting innovative strategies due to changing external environment leads to achievement of high performance and competitive advantage. However, empirical literature has not been conclusive on this relationship and what innovative environment entails. Werner and Dienes (2013) examined environmental innovations and strategies for the development of new production technologies: empirical evidence from Europe. The study examined manufacturing companies across fourteen European companies. The study findings were that firms formulating strategies due to external environment had lower likelihood of introducing organization innovations leading to efficiency in production and performance. This was explained to be likely due to concentration of the analysis of external environment and paying less attention to internal processes. Moreover, in contrast to existing literature, none of the results suggested that firms adopting innovation strategies as a result of external environmental changes experience their improved performance.

Beyene et al.,(2016) studied the impact of innovation strategy on organizational learning and innovation performance using Ethiopia data. The findings were that adoption of innovative strategies improved product innovation and hence organization performance. The study further provided empirical finding that with changes in external environment mainly on technology, changes in economic situation and human resource capacity changes left with firms with no option than to adopt innovative strategies mainly focusing on products and marketing,

Kigoro (2013) studied the strategic responses to the changes in external environment by tour operators in Nairobi Kenya. The aim of the study was to find out how firms responded to changing external environment. The adopted cross sectional survey research design. The findings of the study were that the tour operators have adopted marketing strategies, change management, information communication technology, leadership and culture and restructuring in order to respond to environmental changes.

Njoroge (2015) studied innovative response strategies incorporated by Sarova hotels in Kenya to changes in the environment. Data used by this study was both secondary and primary where primary data was collected by conducting interviews of top managers at Sarova Hotels Limited. The study found that Sarova Hotels Limited had experienced a lot of changes in its external environment that has brought about opportunities and threats for the hotel. The hotel had to restructure its strategy to remain competitive and maintain growth in market share. The innovative strategies adopted included strategic leadership, cost leadership and product and service innovation. Other strategies they have used include improved promotion and service development. The company had also responded by changing the staff culture and technologies adopted.

Ndolloh (2016) studied the innovation response strategies adopted by Co-operative Insurance Company Group Limited due to volatility in the external environment. The study research design used was case study of CIC. Data was collected through interview. The innovation strategies focused on cost, marketing, diversification, joint processes with industry players and marketing. Research and development and information communication technology, which is a source of innovation was being paid for special attention to the firm. Innovation strategies enabled the firm to achieve constant, predictable and above average organization performance. Other findings were that the company suffered from environmental risks brought about by changes in the environment. These were on technology, legislation, technology and changing consumer needs. These affected ability of the firm to penetrate the insurance market, deal with lack of flexibility in pricing and technological needs. With adoption of innovative strategies, the firm was able to address these challenges and achieve above average performance.

2.4 Summary of Knowledge Gaps

Innovation strategies have been found to be one of the most effective ways of responding to changes in the external environment (Njoroge, 2015; Kigoro, & 2013). The available theoretical framework is however not definite enough in establishing why adoption of innovation strategies is among the effective ways of responding to changes in the external environment. Contingency Theory holds that through innovations companies are able to respond effectively to the dynamic market environment. Innovation Theory states that innovation strategies come in handy in overcoming the challenges posed by the external environment which is always uncertain. While Resource Based Theory on the hand,

states that competitive advantage will only be attained when the organizations have the appropriate resources and effectively utilize them.

The empirical evidence has provided contradicting information as most studies mainly concentrated on which innovation strategies have been adopted by organizations without necessarily investigating their influence in responding to changes in the external environment (Werner & Dienes, 2013; McAdam Keogh, 2014). The studies reviewed also indicate that the innovation strategies implemented vary among the organizations (Ngweshi, 2016; Baer & Frese, 2013). On the other hand, a few studies have found that changes in external environment do not necessary lead to implementation of innovation strategies (Njoroge 2015).

Additionally, most studies have been conducted in the developed countries with few being done locally. Moreover, there are no studies conducted on the innovation strategies that have been adopted by dairy companies more so in Kenya. The available literature is therefore not sufficient enough in determination of the exact innovation strategies are adopted by organization in response to the external environment and their effectiveness. It is against this background that the study sought to determine the innovation strategies adopted by New KCC in response to innovative strategies and how these strategies have helped the company improve its performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter detailed the methodology that was used in undertaking the current study. Specifically, the chapter contains the research design to be used, the population of the research study, data collection and data analysis.

3.2 Research Design

The study used a case study design. A case study is where a specific person, organization or case is studied. A case study research is justified from its ability to enable study and understanding of complex subject and thus add strength to a study area with minimal literature. The design enables detailed examination of the examination of an area and thus form basis of generalized studies (Susan, 2017). Kothari (2007) reiterated that case study is a qualitative study which involves keen observation or study of family and institution.

The design was considered appropriate due to its ability to determine the details relating to study objective in real life situation. This was important in establishing and getting detailed understanding the innovation strategies adopted at New KCC in response to changes in external environment. Kiveu (2013), Kigoro (2013) and Ndolloh (2016) have used case studies in their respective fields, successfully.

3.3 Data Collection

The study used both primary and secondary data. Primary data through the use of an interview guide. The guide allowed an in depth exploration of the innovation strategies adopted by New KCC Ltd. The data was qualitative in nature where the data collected was mainly ideas and themes that are related to the innovation strategies. The

interviewees were the Managing Director and heads of sales ,marketing, production, information technology, strategy, finance and business development. These managers were targeted since they are the ones directly involved with formulation of company strategies and are in position to provide the required information pertaining to the innovation strategies adopted by New KCC in response to change in the external environment.

The secondary data was obtained from published documents of KCC and Kenya Dairy Board including annual financial statements, strategic plans and milk productions. This enabled the entire phenomenon to be captured such as the trends in the financial performance, trends in milk productions and the preparedness of KCC in managing the external environment. The secondary data was collected using data collection sheets and scanning of portions of the documents. The researcher wrote to the management of New KCC seeking permission to conduct the study. The study interviewed all head of sections at the New KCC.

3.4 Data Analysis

Data collected using interviews was qualitative in nature. Thus, the data was analyzed using content analysis. This involved listing the responses obtained, determining the similarities between them and grouping the information. Content analysis is described as methodology for making conclusions in objective manner by identifying the features contained in the data (Nachamias & Nachamias, 1996). Being a case study this approach was useful in getting areas of consensus and disagreement from various interviews and with already documented data.

The analysis was based on the meanings and implications which emanate from the interviewees information on innovation strategy. Content analysis was thus used to analyze, identify and categorize patterns that are found in the interview data. It enabled objective, systematic, and quantitative description of innovation strategies and external environment. For the secondary data, document analysis on innovation strategies was employed which involved identification of key issues, determination of the availability of suitable data sources, followed by summarization and interpretation of the results. The data was then summarized and presented in narrations and verbal quotations.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, presentation and discussion of the study findings in light of the objectives. The objective of the study was to determine the innovation strategies implemented by the New KCC in response to changes in the external environment. The data was gathered through interview guides and analysed using content analysis. Interviews were conducted with the top management team and the findings presented were based on the feedback obtained from the interviews. Data was collated and presented in comparison with the findings and conclusions of other empirical studies.

4.2 The External Environment Affecting New KCC

Respondents were asked to discuss the environment within which New KCC operates. This was meant to determine nature of environment in which the organization conducted its operations. The responses from the respondents were that external environment affecting New KCC to be dynamic, fluctuating, uncertain and difficult in terms of being profitable and remaining dominant in the market. One of the respondents stated:

“The external environment surrounding New KCC, and the whole dairy industry in general is highly competitive and unpredictable. At one point, the firm is performing very well with high returns and at another point it becomes a challenge to remain profitable. Therefore, there is not a conclusively way of defining the exact nature of the external environment.”

The interviewees further indicated that the environment was uncertain as there was no guarantee that the organization would perform as well as expected at all times.

Particularly, an interviewee indicated that:

“The fluctuating performance that New KCC has experienced in the recent years since its introduction may be largely attributed to changes in the external environment as it constantly changing. In this perspective unfavorable environmental conditions see the company experience diminished sales which the organization has minimal control over”

The study also sought to determine the external environment aspects that affects New KCC. This aimed to establish the external factors which are beyond the control of the firm and influence the organizations’ decisions, structure and actions both directly and indirectly. According to the interview responses, four main aspects of the external environment were established to be most significant which included; competitors, political factors, legal factors and social factors affect New KCC. These factors were noted to be highly prioritized during the formulation of any marketing strategy of New KCC.

As pertaining to the competitors’ activities surrounding the New KCC, it was found out from the interviewees that the organization faced stiff competition from other milk companies, small retailers and even business intermediaries. This was also confirmed by the existence of a detailed dairy value supply chain viewed as per appendix V which was strictly adhered to in addressing these competitors. One interview argued that;

“Intermediaries pose the greatest challenge to profitability of New KCC as they influence the rate of flow of milk to the company and also discouraged the milk

suppliers”. He further added that, “Increased players in the dairy industry reduce the consumption of the firm’s products by the customers”.

The study aimed at establishing the influence of political environment on KCC. This relates to forces that allocate power and influence originating from government decisions. From the interview responses, it was found out that there are several political aspects which exerted an external influence to KCC. Whilst political instability was found out to be very undesirable as it would result in significantly lower sales. According to an interviewee from the operations department;

“Changes in government regimes from time to time with subsequent governments initiating varying policies have directly affected the income and expenditure of the New KCC and its customers through taxations. Also, there are political affiliations which tend to interfere with how the organization operates. Hence, most investment ventures and decisions done at KCC are based on political actions and approaches.”

The study also aimed at establishing the influence of political environment on KCC. This was aimed to determine the laws that regulate the conduct of the business, where some rules may be protecting the firm while others may have a constraining effect. Based on the responses by the interviewees, legal factors pose an external influence to the operations at New KCC. The interviewees enumerated several legal factors affecting New KCC. These include; legislations such as Public Procurement and Disposal Act that determine how equipment are procured in the firm and also stringent measures and bureaucratic procedures. Specifically, an interviewee noted that:

“These bureaucratic procedures pose regulations KCC is expected to adhere to during purchasing raw materials, selling its commodities and also how it competes against other milk processors. Additionally, enacted laws and upcoming bills on consumer rights and pricing was necessitate constant revision of the firm’s endeavors.”

The study also sought to determine the social and cultural factors which externally affected the organization. The interviewees affirmed the presence of preferences, beliefs, opinions and norms of the consumers which predetermined the sale and choice of new products to be introduced. An interviewee noted that:

“The customers’ tastes and preferences are frequently changing over time as each customer endeavors to satisfy their own personal desires and desires regardless of the company involved. It therefore necessitates the organization to be vigilant on the current trends in customer consumptions.”

The interviewees further stated that there is an increasing demand that there be constant environmental scanning to ensure that the commodities produced are in line with the emerging trends and needs of the customers. The findings obtained compare to those of Kiragu, (2014)who found out that most challenges faced by organizations in Kenya are brought about by the external environment being unstable and unfavorable. The external environment therefore ought to be studied and well monitored at all times as stated by the finance and strategy departmental heads.

4.3 Innovation Strategies Adopted by New KCC due to Changes in the External Environment

Respondents were asked describe the innovation strategies adopted by New KCC due to changes in the external environment. This was meant to determine how effective the organization was able to respond to changes in the external environment through innovating new strategies. The responses from the respondents were that innovative strategies formulation and implementation was highly priorities as a key function in the firm. The head of strategy affirmed that;

“Currently at New KCC, frequency of adoption and implementation of new strategies is regular and ongoing. However, the rate of implementation of a particular strategy is highly dependent on the need for the strategy and the perceived benefits to be obtained from the innovation strategy. These strategies are supported by New KCC through funding research activities, availing resources required and conducting feasibility studies. This ensures that the strategies were not only effectively formulated but also effectively implemented as well. The strategies are constantly monitored and evaluated throughout”

An interviewee from the strategy and development department further indicated that;

“Innovation strategies put in place at New KCC are as per the Kenya National Dairy Master Plan. This plan aims at transforming milk production and trade into an innovative, commercial oriented and globally competitive dairy value chain by 2030. The policies put across by the plan include Economic Recovery Strategy (ERS), the Strategy for Revitalizing Agriculture (SRA), the Vision 2030 launched in 2007 and the Agricultural Sector Development Strategy (ASDS, 2010). Due to

there being many actors in the dairy value chain, it requires careful formulation, selection and implementation of the strategies so as to achieve the desired outcomes”.

Based on the strategic plan as per appendix VIII, there has been increase in the milk intake and supply, it is expected to increase even further come 2030. An interviewee from the marketing department noted that;

“Innovation strategies in New KCC are mainly chosen following the guidelines provided in the Generic turnaround strategies manual that aims at transforming the organization.”

As shown by appendix IX, the Generic turnaround strategies manual comprised of three main components which include strategic repositioning, re-organization and value chain improvement. The relevance of the innovative strategies in the strategic plans was supported by the head of sales who noted;

“The value chain improvement due to the innovation strategies employed were established from the interview responses to end up in revenue enhancement, cost reduction, asset reduction and improved service delivery. This acts to ensure that there will be improved profitability and return on the capital employed. ”

Based on the financial statement (2015) as per appendix IV, there has been significant increase in the revenue accrued from the liquid products from 5.6 million in 2014 to 7.1 million in 2015 which was indicated by the interviews to be largely linked to the innovation strategies. However, the organization still has contingent liabilities as observed from its financial statements which shows the need to increase efficiency in

operations. The innovation strategies that were indicated by the interviewees to be put in place at New KCC include;

4.3.1 Marketing Innovation Strategies

This section sought to establish the market innovation strategies that have been implemented at New KCC. Market innovation strategies relates to the measures put in place so as to ensure market dominance and competition edge by the company. According to the interviewees, main aim of marketing innovation is to increase the market share, increase sales and open new markets. This was unanimously agreed to be essential in curbing the heightened competition in the dairy industry with new entrants into the industry making it difficult to thrive without the presence of proper marketing innovative strategies.

The head of marketing on commenting on the marketing innovating strategies adopted by New KCC indicated that:

“Market innovation strategies available at New KCC include, direct marketing, customer satisfaction, improved service delivery, branding and continuity in innovations. Of these three, direct marketing is the most frequently used as it aims at establishing the emerging trends with a view of satisfying target customer needs and building our brands. This ensures that the customers' needs and requirements are well addressed.”

Branding on the other hand was established from the interviews to be helpful in creating a brand identity and positioning our various brands. Through this the organization's products are easily pointed out from the others in the market. Market innovation was

further stated by an interviewee from the strategy department to increase the marketing aggressiveness of the organization, increasing customer retention and product entry into the new markets. The interviewees under the marketing department further argued that marketing innovations act out to bring about efficiency and effectiveness in the organizations; they are thus theoretically intangible resources and tactical actions which determine the organization's performance.

The findings coincide with Slivko, (2012) who investigated marketing innovation strategies of German firms. The study found out that implementation of marketing innovation strategies had a positive effect on competitive advantage and external environment management. This concurs with Maina, (2016) who conducted a study on effect of innovation strategies adopted on the performance of insurance firms in Kenya and established that there was a strong and positive relationship between insurance marketing innovation strategies and firm performance.

4.3.2 Product Innovation

This section sought to determine the product innovation strategies adopted by New KCC. According to the responses obtained from the interviews, product innovation strategies were mainly formulated so as to provide differentiation and uniqueness in the products of the firm. This was essential in increasing corporate brand and recognition which translates to enhanced customer loyalty and overall improvement in performance. Additionally, product innovation strategy was perceived to by the interviews to be an avenue of introduction of better products or improving the already existing products hence countering competition and minimizing external market risks.

The production, strategy and marketing interviewees stated that some of the product innovation strategies adopted by NKCC include; the development of a new product, such as Pacoh School milk, Herbal Cheeses, Flavored milk, Improvement of the performance of the existing product, adding a screw cap to the UHT milk for ease of opening, migrating of Mala from “TC” to bottle and adding new feature to existing product. These include new flavors for products such as Sweetened Mala, Fruit Yoghurt, and low fat milk. The products were mainly formulated on the basis of enhancing initial milk products by the firm.

Particularly, the interviewees held that introduction of the flavored milk and flavored products to be readily accepted by the consumers. These products readily got immediate increase in sales upon their introduction. Therefore it is was indicated that their production would continue for the considerable future. Additionally, the adding a screw cap to the UHT milk made it to be more preferred as compared to its predecessor. However, other production innovation strategies were stated by the interviewees to have minimal impact in responding to the external environment such as Herbal Cheeses and Pacoh School Milk.

The same sentiments were held by the head of production department who stated;

“The organization constantly innovates new products in line with the ever changing tastes and preferences of the consumers. Some of the newly introduced product innovations include; KCC Pasteurized Butter variants, KCC Processed Cheddar Cheese, Safariland Powdered Skimmed Milk, La fruit yoghurt, flavoured fermented milk mala, Safariland Powdered Whole Milk, Shakalaka. These product range has been carefully selected to meet the demands of consumers in all

market segments with plans to continuously evolve these products in tandem with changes in the market.”

The interviews further indicated, there were other products under development in line with their marketing strategies. These product innovation strategies were deemed by the interviewees to be important because it ensured that the company not only met the demands of the already existing customers but also lured other customers to their products. This ensured that the products of the company were unique and distinct in the market as opposed to other milk processors. It was further argued by the interviewees that the product innovations thus led to profitability, growth and increased market share, improving the overall performance of the organization.

This relates to the findings of Prajogo, (2016) who found out that product innovations facilitates firm to have a proper strategic fit in their respective business environments. The same was established by Shisia, (2015) on his study on commercial banks in Kenya who indicated that through constant product innovations, the organizations were able to draw closer to the customers and thus effectively addressed their needs and complaints. This shows that the product innovations play crucial role in not only in management of the external environmental risks increasing the business sales.

4.3.3 Process Innovation Strategies

This section sought to establish the innovation strategies put in place by New KCC so as to ensure smooth running of operations and activities in the firm. From the responses of the interviews, the importance of the process innovation strategy was to ensure that the operations were not only fast and reliable but also cost effective. This acts to minimize the production costs hence resulting in low expenses thus higher returns. Owing to the

fact that the macro-economic environment is highly fluctuating, the interviewees argued that proper process innovation strategies shielded the firm from incurring losses brought about by unfavorable external environment.

The interviewees operations manager added that the process innovation strategies available at New KCC to be;

“Implemented SAP system (ERP), Installed modern machines for production of long life products, Leasing of vehicles (instead of company owned and also to enable concentrate on core business), Introduction of customer service line, Changes in distribution channels (from only dealing with distributors to dealing with retailers, appointed agents, direct selling) and Outsourcing of non-core business such as recruitment of staff, servicing of machinery and security services.”

The process innovation strategies were stated by majority of the respondents to increase the speed and quality of productions. The end results of the process innovations is to encourage the departments and divisions to work together so as to accomplish the organization's objectives and target. It was further indicated by the interviewees that process innovation strategies such as accounting, purchasing and maintenance contributed to both profitability and performance of the firm as a whole.

The importance of process innovation strategies in mitigating the changes in the external environment concurs with Chudnovsky, Lopez and Pupato (2006) who studied innovation and productivity in developing countries case of study of Argentine Manufacturing Firms. The study found that those manufacturing firms that had innovated efficient processes performed better and were least affected by the external

environmental changes. While Engel, and Trettin (2004) on their study on SMEs in Germany established that process innovation strategies facilitated growth of the SMEs.

4.3.4 Other Innovation Strategies

The interviewees unanimously also indicated that there were other innovation strategies in the firm, which despite being helpful had relatively low extents of adoption. This entail, organization structure innovation, cost leadership, market focus and differentiation. Organization structure innovation strategies adopted by New KCC were stated to be restructured organogram, introduced new positions and also abolished earlier positions which aimed at enhancing efficiency in operations. Cost leadership is through ensuring that the company produces products having the lowest price in the market.

Differentiation was argued to ensuring the products and commodities by New KCC are unique from the competitors. All these aim at enhancing the customers' loyalty and preference to the organization's products. They have been successful as they have helped turn around the company to profitability. Through cost leadership strategy, new KCC has become a low-cost producer in its industry since it has a broad scope and serves many industry segments, this is realized through gaining experience, pursuit of economies of scale, investing in large-scale production facilities and careful monitoring of overall costs of operation.

Being a low cost producer it has was indicated by the interviewees to benefit the new KCC in that it is able to withstand intensive price competition and buyers appreciate the offer for lower prices. However, in some instances the adoption of cost leadership has not been successful due to the fluctuation of milk intake especially during the dry season when the milk prices have been high stated an interviewee from the sales department.

While market focus innovation strategy was noted by the marketing manager to come into place where, the organization wanted to target a particular segment in the market.

4.4 Secondary Data Analysis

The secondary data also utilized secondary data which enabled the capturing the trends in the financial performance, trends in milk productions and the preparedness of KCC in managing the external environment. The secondary data was obtained from published documents of KCC and Kenya Dairy Board including annual financial statements, strategic plans and milk productions. This was important so as to enable determination as to whether any influence of the external environment on these trends at both KCC and the rest of the milk processing companies. The secondary data was collected using data collection sheets and scanning of portions of the documents.

According to the records by Kenya Dairy Board, since 2009, there has been a steady increase in the daily intakes by milk processors to over 3 million liters by January 2016 as shown by Appendix VIII. Also the milk intake in the formal sector has increased significantly since 2016 as per Appendix VII showing improvement in the dairy sector. Consequently, the milk production by milk processors has increased from 143.5 million liters in 2002 to over 400 million liters in 2017 representing more than 150% increase. As shown by the Appendix VII, these trend is projected to increase even further to approximately three fold by year 2030.

The increase in milk production and intake attributed by various measures put in place government of Kenya to improve the overall conditions of the external environment including monitoring and control of macroeconomic variables, availing of grants, restructuring and capacity building of Kenya Dairy Board, strengthening of farmer

organizations like the Agricultural Finance Cooperation (AFC) and revival of New KCC. Additionally, based on the financial statement (2015), there has been significant increase in the revenue accrued from the liquid products from 5.6 million in 2014 to 7.1 million in 2015 as appendix V. However, the organization still has contingent liabilities as observed from its financial statements which shows the need to increase efficiency in operations.

4.5 Discussion of Findings

The study sought to determine the innovation strategies implemented by the New KCC in response to changes in the external environment. The study found out that the external environment in which New KCC is very uncertain and competitive. The study also found out that the key external factors affecting New KCC to be competitors, political factors, legal factors and social factors. These factors were established to influence not only how the organizations operated but also performed. This coincides with findings of Waiganjo, Mukulu, and Kahiri, (2012) who investigated the external factors influencing performance of public corporations and established similar results.

The study also investigated the specific innovation strategies adopted by New KCC due to changes in the External Environment. According to the responses from the interviewees main generic strategies implemented at New KCC included; product innovation, market innovation and process innovation. The study found out that the market innovation strategies available were, direct marketing, customer satisfaction, improved service delivery, branding and continuity in innovations which helped in minimizing of market risks.

The product innovation strategies adopted by NKCC were determined to include; the development of a new product, Improvement of the performance of the existing product

and Adding new feature to existing product. The product innovation strategies were indicated to be an important strategic tool in coping competition. This was through ensuring continued production of unique and customer oriented products that are more likely to achieve higher sales. The same is supported by Teece, Pisano, and Shuen (1997) who found out that enhancing product innovation resulted in improved performance in a competitive environment.

While on process innovation strategies, the study found out the strategies to be; implemented SAP system (ERP), modernization of production facilities, leasing of vehicles, introduction of customer service line, changes in distribution channels and outsourcing of non-core business. These were indicated to promote efficiency in operations, shielding the firm from external environmental uncertainties hence assurance of continuity of the firm. Other minor innovation strategies at New KCC were organization structure innovation, cost leadership and differentiation.

This study therefore confirms that there exists innovation strategies implemented by New KCC in ensuring that they adequately respond to changes in the external environment. This is in line with the theories conducted whereby contingency theory states that the environment in which organizations operate in is constantly changing. For organizations to have competitive advantage, firms must be able to adjust their strategies and make sure they are in line with the environmental changes. However, according to these theories, the strategies adopted by the organization and outcomes obtained will tend to vary based on the specific organizational capabilities.

While the diffusion of innovation theory helps to understand how various innovation strategies in use within the economic environment have been adopted and used in the

firm in response to the external environment. Based on these theory, the available innovation strategies are KCC are as a result of the specific changes in the external environment. Hence each of these strategies is theorized to be tailored to address a certain environmental attributes. Therefore, incorporation of diverse strategies will act to ensure that all challenges arising from the external environment are well addressed.

The implementation of strategies in response to the external environment is also supported empirically by the studies. Ndolloh (2016) studied the innovation response strategies adopted by Co-operative Insurance Company Group Limited due to volatility in the external environment and established that innovation strategies enabled the firm to achieve constant, predictable and above average. In a similar way, Kigoro (2013) did a study on the strategic responses to the changes in external environment by tour operators in Nairobi Kenya and found that the tour operators used marketing strategies in order to respond to changes in external environment. While Saffu, (2015) also found that that proper implementation of innovation strategies translated to better performance and competitiveness.

On the contrary, this contradicts LeeAnn, and Kung, (2014) who studied the external environment pressure on organizational innovation adoption in Auburn and found out that strategies have an insignificant influence on how the organization responds to the external environment. The study links the organizational structure and managerial practices to be the main determinants in mitigating the external environment pressure. On the other hand Lilly, and Juma,(2014) found out that incorporation of innovation strategies resulted in additional costs being incurred with the strategies always achieving the intended results. This shows contradicting results which may be due to the studies

being conducted in different contextual setting, different time frames or varying variables.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter contains summary of the study, conclusion and recommendations and areas for further research. Data analysis and summary and conclusions were made in line to the study objective which was to determine the innovation strategies implemented by the New KCC in response to changes in the external environment.

5.2 Summary of Findings

The study sought to determine the innovation strategies implemented by the New KCC in response to changes in the external environment. The study found out that the external environment in which New KCC is very uncertain and competitive. This causes the internal operations and performance of the organization to be highly dependable on the current condition in the external environment. The key external factors affecting New KCC were established to be competitors, political factors, legal factors and social factors. These factors had a great impact on the sales and operations at New KCC. The study further found out that to be able to monitor and respond to the external environment, environmental scanning.

On the exact innovation strategies adopted by New KCC due to changes in the External Environment, the interviewees stated three main strategies which included; product innovation, market innovation and process innovation. The interviewees states that the market innovation strategies available were, direct marketing, customer satisfaction, improved service delivery, branding and continuity in innovations. The marketing strategies were established to be essential in curbing the heightened competition in the

dairy industry with new entrants into the industry making it difficult to thrive without the presence of proper marketing innovative strategies.

The product innovation strategies were found out to include; the development of a new product, improvement of the performance of the existing product and adding new feature to existing product. The product innovation strategies were further found out to be formulated so as to be a key tool in minimizing competition through providing differentiation and uniqueness in the products of the firm. This was essential in increasing corporate brand and recognition which translates to enhanced customer loyalty and overall improvement in performance.

While on process innovation strategies, the study found out the strategies to be; Implemented SAP system (ERP), Installed modern machines for production, Leasing of vehicles, Introduction of customer service line, Changes in distribution channels and Outsourcing of non-core business. The relevance of the product innovation strategies in mitigating the external environment was established to be through shielded the firm from incurring losses brought about by unfavorable external environment by fostering economical and efficient productions in the firm.

The study also sought at determining the influence that innovation strategies had at the New KCC. The interviewees concurred that NKCC has experienced growth and expansion after adoption of the strategies. This shows that the innovation strategies implemented at New KCC had a positive and significant effect on the performance at New KCC. Specifically, the competitive advantage had improved drastically since the adoption of the strategies. This concurs with Hiriappa (2008) who contends that external environment comprises of outside forces of a firm's boundaries therefore

implementation of the innovation strategies will put the organizations in a suitable position to handle the external pressure.

5.3 Conclusion

Based on the study findings, the study makes a number of conclusions. The study found out that the external environment surrounding New KCC is highly unpredictable and competitive. This is brought about by factors arising from the economic, social, cultural and political aspects of the environment. The study therefore concludes that the external environment in which New KCC operates in and the overall dairy sector in Kenya is both dynamic and uncertain. It is also concluded, to survival of the firm is dependent on the effectiveness of management on these environmental forces.

The study also established that New KCC has implemented innovation strategies so as to cope with the external environment including product innovations, market innovations and process innovations. This implied that the innovation strategies were essential in predicting and managing the external environmental factors. The study therefore concludes that New KCC recognizes the importance that innovations strategies have in handling the external environment. Hence the innovation strategies may be used complementary and supplementary to each other in achieving the desired outcomes.

The study further established that adoption of the innovation strategy resulted in improved preparedness to the external environmental changes and also played a crucial role in attainment of competitive advantage by New KCC. Innovativeness ensures that the strategies implemented are unique and well suited for that particular environment. The study therefore concludes that formulation of innovative strategies is important for New KCC to thrive and remain profitable in the current dynamic environment.

5.4 Recommendations for Policy and Practice

Based on the findings obtained by the study, several recommendations are made which are aimed to improve the nature of innovation strategies in organizations. The recommendations are made to both policy which include the regulatory bodies and practice comprising of the managerial aspects.

5.4.1 Recommendations for Policy

The study found out that the external environment facing New KCC was under constant changes and fluctuations. To stabilize this external environment and minimize the occurrences of fluctuations, the study recommends the formulation of measures such as monetary policies and interest rate control which will foster stability the macroeconomic environment. Through this the amount of money in circulation and inflations will be minimized resulting in increased stability in the macro-economic external environment and reduced adverse negative effects on the firms.

The study also found that there is lack of adequate and specific regulations pertaining to how innovation strategies are adopted in organizations. The study therefore recommends that the regulatory bodies to formulate policies that will favor and regulate the adoption and implementation of innovation strategies in the organizations. This will not only ensure uniformity in the innovation strategies employed but also mitigate challenges associated in the implementation process of these strategies promoting their overall effectiveness and end results accrued from them in response to the external environment.

5.4.2 Recommendations for Practice

The study found out that there are uncertainties created by the external environment. These relate to the political, economic, socio and technological aspects of the environment in which New KCC operates in. The study therefore recommends that the management at New KCC to undertake regular and frequent scanning of the external environment. This will enable them to identify and predict the trends both in the dairy industry and the remote environment. Through this the management will be able to address any anticipated changes and challenges posed by the external environment.

The study further established that innovation strategies were yet to be fully implemented at New KCC due to lack of adequate implementation procedures of these strategies. In this regard, the study recommends that the organization should first have a clear understanding on the motive and capability prior to adopting any particular innovation strategy. This will be essential in establishing the basis to which they will segment their products, operations and services. Due to the market becoming dynamic implementation of the appropriate innovation strategy will ensure that organization remains profitable.

5.5 Limitations of the Study

The main limitation faced by the study was in the data collection method used which was through the use of interviews. Interview method in data collection is highly qualitative in nature and based on the opinions of the interviewees. Hence, the responses obtained may only be opinions of the interviewees and not necessarily the exact situation at New KCC. The study also faced a challenge in getting the interviewees who were mainly Head of departments due to their busy schedules. This affected the length of the study and at times inadequate information.

The study was also limited by the research design whereby a case study approach was used. The scope of the study was therefore New KCC. As such, this may not be an actual representation of other milk processing companies in the country. This is due to the differences in organizational structures, operating systems, resources and innovative strategies employed. Hence the findings may not be fully generalized to not only other milk processing firms but also other companies in different sectors.

The study was also faced a limitation in accessing the data for the study which was deemed to be sensitive in nature. In this regard, most of the interviewees were reluctant in undertaking the interviews as matters pertaining to the strategies in companies are deemed private and confidential as they may be used by competitors. Additionally, only a small number of the top managerial personnel in the companies was sampled without consideration of the other employees. Therefore, the findings obtained may be biased and thus not a complete reflection of the phenomenon that exists.

5.6 Suggestions for Further Research

Despite the study addressing its research objective, there are certain areas which have arisen as a result of this study which prompt the need for further studies. To begin with, the study was limited by the data collection method whereby only interviews were used in obtaining information which may not be completely sufficient. To enable triangulation of the findings, the study suggests that other methods of data collection such as focus group discussions and use of questionnaires be adopted in future studies. This will facilitate thorough data collection on the study topic.

The study was also to New KCC which may not be an actual representation of other milk processing companies or other firms in other sectors. To enable generalization of the

study findings, it is therefore suggested that further studies to be conducted on other companies. This will be enable comparison of the results obtained by the study and also establish whether the similar situation exists. It will also enable investigation of other innovative strategies which might be absent at New KCC therefore comprehensively determination of the influence that exists between innovation strategies and external environment.

The study was further limited to only a small managerial sample for obtaining information. To facilitate capturing the perspective of a larger group of respondents, the study suggests that further studies be conducted considering a larger population sample. The future studies should also collect data from lower rank employees rather than only the managerial levels. This will enable to obtain a broader perspective on the innovation strategies' implementation concept in organization and its role in mitigating external environmental challenges.

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APPENDICES

APPENDIX I: COVER LETTER

Mung'athia Jeremia Kamencu

University of Nairobi

P.O Box, 30197-00100

Nairobi, Kenya.

August 2017

Dear Sir/Madam,

RE: DATA COLLECTION

I am a final year master's degree student at the University of Nairobi undertaking a Master of Business Administration Program majoring in Strategic Management. One of my academic outputs before graduating is a thesis and for this I have chosen the research topic "**INNOVATION STRATEGIES ADOPTED BY NEW KCC TO CHANGES IN THE EXTERNAL ENVIROMENT**".

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the interview guide. The information you provide will be used strictly for academic purposes and will be treated with utmost confidence. A copy of the final report was available to you upon request. Your assistance will be highly appreciated.

Yours Sincerely,

Mung'athia Jeremia Kamencu

APPENDIX II: INTERVIEW GUIDE

New KCC External Environment

1. Describe the environment within which New KCC operates
2. What are the external environment aspects that affects New KCC?
3. Given the ever changing business environment, how frequent is the external environment scanning done?
4. What tools do you use in getting information about the environment?
5. Who is responsible for the environmental scanning and what are the reporting channels available on such research?
6. What are the environmental aspects that have affected the operation in the organization?

Innovation Strategies Adopted by New KCC due to Changes in the External Environment

7. Does the changes in external environment affect the innovation strategies adopted by New KCC?
8. What is the frequency of adoption and implementation of new strategies?
9. How does New KCC support innovation in strategies adopted?
10. Shed more light on the marketing innovation strategies adopted by New KCC
11. Shed more light on the product innovation strategies adopted by New KCC
12. Shed more light on the process innovation strategies adopted by New KCC

13. Shed more light on the organization structure innovation strategies adopted by New KCC
14. What other innovation strategies would you recommend for adoption by New KCC
15. Considering the response innovation strategies adopted by the firm, how successful have they been? Have you witnessed any instance of failure of a response initiative?
16. Has the New KCC invested in research and development as a primary source of innovation strategies?
17. What other important aspect you would like to highlight on innovation strategies adopted by New KCC in response to changes in the external environment?

APPENDIX III: INTERVIEW SCHEDULE DETAILED FINDINGS

Part A: New KCC External Environment

1. Describe the environment within which New KCC operates

- *Interview₁-Very Competitive which mostly due to the increase in the number of milk processors in the country. Hence this results in a 'scramble' for the customer base lowering returns.*
- *Interview₂-Constantly Changing; at one time the external environment is highly profitable and other times only losses are attained. Therefore there cannot be any fixed definition of what exactly the environment surrounding New KCC is.*
- *Interview₃-Unpredictable; It is almost impossible to predict the future projections on performance of the firm based on the past experiences with the external environment. Thus it requires continuous and spontaneous analyses of the current situation in the external environment.*
- *Interview₄-Uncertain; One cannot be 'completely sure' what the external environment will present. This calls for alertness and preparedness always.*
- *Interview₅-Dynamic; It constantly changing ranging from the players in the dairy industry to the external influences that the firm is being faced with.*
- *Interview₆-Fluctuating; The external environment constantly from time to time hence the effects of the external environment to the firm is based by*

the current situation in the external environment whether it is favorable or not.

- *Interview₇-Full of competition; This not only comes from other daily processor firms but also intermediaries, farmers and local milk retailers. Hence the sales are significantly reduced.*
- *Interview₈-Difficult; The external environment is difficult to both survive and remain dominant.*
- *Interview₉-Challenging; This is because it necessitates the organization to constantly come up with strategies both internally and externally so as to remain profitable.*
- *Interview₁₀-Hard to Thrive; This is attributed to the fact that it is 'easier' to fail due to the challenges posed by the external environment as opposed to succeeding.*

2. What are the external environment aspects that affects New KCC?

- *Competitors activities(7)*
- *Political(10)*
- *Legal requirements(9)*
- *Government regulations(6)*
- *Changing customer tastes and preferences(9)*
- *Macro-economic Variables(6)*
- *Social factors(8)*
- *Technological Advancements(5)*
- *Current Economic Position in the Country(4)*

- *Poor infrastructure (1)*
3. Given the ever changing business environment, how frequent is the external environment scanning done?
- *Frequently(1)*
 - *Ongoing (2)*
 - *Continuous(2)*
 - *Annually(3)*
 - *Randomly Done (1)*
 - *Done when need arises(1)*
4. What tools do you use in getting information about the environment?
- *Root Cause Analysis*
 - *VMOST: Vision, Mission, Objectives, Strategy, and Tactical.*
 - *SWOT analysis:*
 - *PEST - Political, Economic, Social and Technology.*
 - *SOAR-Strengths, Opportunities, Aspirations, and Results. To enable focus on a specific impact zone for issues and areas identified*
 - *Boston Matrix tool by analyzing NKCC business product and services to determine if it is a cash cow, sick dog, questionable, or a flying star.*
 - *Porter's Five Forces: to determine present competitiveness and future positioning strength. It forces you to analyze the bargaining power of suppliers and customers, the threats to new entrants and substitutes, and competitive rivalry in your marketplace.*

- *Maturity Models such as technology and team models*
5. Who is responsible for the environmental scanning and what are the reporting channels available on such research?
- *Interview Responses-All HODS's ;Managing Director, Chief Manager Sales and Marketing, Chief Manager Raw milk & extension Services, Chief Manager Finance, Chief Manager Human Resource & Development, Head of Sales, Head of Strategy & Business Development, Head of Marketing and Product Development.*
6. What are the environmental aspects that have affected the operation in the organization?
- *Interview Responses-Economic, Political, Social, Legal ,Technological, Suppliers, Competitors, Marketing intermediaries, Organizational Culture, Organizational Structure, Macro-economic variables such as inflations.*

Part B: Innovation Strategies Adopted by New KCC due to Changes in the External Environment

7. Does the changes in external environment affect the innovation strategies adopted by New KCC?
- *Yes(10)*
 - *No(0)*
8. What is the frequency of adoption and implementation of new strategies?

- *Regularly (5)*
- *Spontaneously(2)*
- *After a Considerable Time(2)*
- *When Need Arises(1)*

9. How does New KCC support innovation in strategies adopted?

- *By funding research activities(2)*
- *Availing resources required (10)*
- *Conducting feasibility studies(5)*
- *Budgetary Allocation(9)*
- *Government Aids (3)*
- *Stakeholder's Support (7)*
- *Management Initiatives(9)*

10. Shed more light on the marketing innovation strategies adopted by New KCC

- *By creating a brand identity and positioning our various brands*
- *Changing through newer, better marketing practices, by observing, listening, asking a lot of the right questions and taking a lot of what you think may work*
- *Controlling what people do with NKCC products, and consequently controlling how they respond.*
- *Direct marketing based on emerging trends with a view of satisfying target customer needs and building our brands.*

- *Focusing on a market niche in the market that has not yet been ventured into.*
- *Through mainly market advertisement conducted on the social media platforms and publications*
- *Creating an efficient Customer Relation and Feedback Mechanism*
- *Formulation of various market penetration strategies.*
- *Conducting Market Surveys so as to establish any particular changes in the market environment.*
- *And ensuring that branding and visualization pops out on top.*

11. Shed more light on the product innovation strategies adopted by New KCC

- *Adding new feature to existing product. These include, new flavors for products such as Mala, Yoghurt, and low fat milk*
- *Improvement of the performance of the existing product – Adding a screw cap to the UHT milk for ease of opening, migrating of Mala from “TC” to bottle*
- *KCC Gouda Cheese- This is a hard, mild flavoured Holland type cheese. Its texture is slightly elastic and is best for sandwiches. It is rinded and has a red coat that preserves the moisture and flavour.*
- *KCC Pasteurized Butter: Finest, fresh creamery pasteurized butter with a very aromatic flavour and taste. Variants: Salted, unsalted*
- *KCC Processed Cheddar Cheese- This is a pasteurized blend ripened cheddar cheese and milk powder. It has a pleasing aroma with a homogenous texture.*

- *KCC Rindless Cheddar Cheese: It is a semi-hard fairly strong English type cheese of light amber colour. It has a smooth closed texture. It has no rind as the name suggests*
- *KCC Superfine Ghee: This is ghee made from high quality milk cream. It has a unique taste and flavour that adds a special taste to food.*
- *KCC Tavern Cheese- A very strong flavoured cheese of Italian style, ivory in colour, easily grated, it is rinded and has a clear coat.*
- *Safariland Powdered Skimmed Milk*
- *Safariland Powdered Whole Milk: Safariland powder milk is spray dried milk intended to provide convenience to customers.*
- *Shakalaka: Shakalaka is a healthy energy drink that peps you up everyday. It is made from a tasty blend of whey and fruit flavours.*
- *The development of a new product, such as Pacoh School milk, Herbal Cheeses, Flavored milk*

12. Shed more light on the process innovation strategies adopted by New KCC

- *Implemented SAP system (ERP)*
- *Installed modern machines for production of long life products.*
- *Leasing of vehicles (instead of company owned and also to enable concentrate on core business).*
- *Introduction of customer service line.*
- *Changes in distribution channels (from only dealing with distributors to dealing with retailers, appointed agents, direct selling)*

- *Outsourcing of non-core business such as recruitment of staff, servicing of machinery, security.*

13. Shed more light on the organization structure innovation strategies adopted by

New KCC

- *Restructured the organogram.*
- *Introduced new positions and also abolished earlier positions.*
- *Recruited new personell*
- *planned privatisation of the milk processor*

14. What other innovation strategies would you recommend for adoption by New

KCC

- *Cost leadership*
- *Differentiation*
- *Focus*

15. Considering the response innovation strategies adopted by the firm, how successful have they been? Have you witnessed any instance of failure of a response initiative?

- *They have been successful as they have helped turn around the company to profitability*
- *In some instances the adoption of cost leadership has not been successful due to the fluctuation of milk intake especially during the dry season when the milk prices have been high.*

16. Has the New KCC invested in research and development as a primary source of innovation strategies?

- *Yes (8)*
- *No (2)*

17. What other important aspect you would like to highlight on innovation strategies adopted by New KCC in response to changes in the external environment?

- *Implementation challenges in organizational change and development while adopting innovation strategies to ensure minimal disturbance to organization productivity.*
- *Adopting innovation strategies to international strategies adopted by the company in target export markets.*
- *The strategies should be constantly updated and changes*
- *Feasibility studies should be conducted so as to come up with newer and more advanced innovational strategies*
- *The employees should be engaged more in formulation of the strategies*

APPENDIX IV: NEW KCC FINANCIAL STATEMENT

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2015

	30 th June 2015	30 th June 2014
1) Revenue		
Liquid Milk	7,162,156,191	5,601,893,014
Other dairy products	468,025,938	1,349,021,855
Less: Transport rebates and Discounts	(35,410,852)	(64,474,385)
	7,594,771,266	7,386,440,485
2) Other Operating Income		
Rent(from investment property)	7,813,329	8,462,373
Other miscellaneous income	6,934,318	3,748,982
	14,747,647	12,211,355
3) Selling and Distribution Costs		
Distribution Costs	362,449,178	403,041,027
Advertising and Promotion	66,512,072	54,551,255
Selling Expenses	398,214,337	319,311,866
	817,175,588	777,004,179
4) Administrative Expenses		
Staff Costs	251,017,237	248,166,014
Director Expenses	8,703,092	8,019,552
Administrative Expenses	560,842,864	472,466,239
	820,663,223	728,769,804
5) Net Financing Costs		
Bank Charges and Commission	11,389,857	19,270,551
Exchange Loss/(Gain)	(230,345)	2,574,878
Interest on Bank Overdraft	99,455,857	99,378,788
Interest on Bank Loan	57,473,786	44,544,321
	168,069,155	165,768,538
6) Profit(Loss) before tax is arrived at after charging i(Crediting):		
Depreciation on Plant, Property and Equipment	414,139,718	408,871,796
Trade Receivable-Provision for Impairment Losses	22,431,054	54,024,115
Loss on disposal of plant, property and equipment	(380,296)	0
Repairs and Maintenance	6,769,092	7,538,521
Employee benefits expenses(note 8)	794,041,015	778,734,361
Directors emoluments	8,703,092	8,019,552
Auditors Remuneration	1,020,000	1,600,000

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2015

22) Cash Generated from Operations

Reconciliation of profit before income tax to cash generated from operations

Profit(Loss) before interest expense	(80,289,247)	151,790,300
Adjustments for:		
Depreciation on property, plant and equipment	414,139,718	408,871,796
Revaluation reserve amortization		
Loss on disposal of property, plant and equipment		
Changes in Working Capital:		
Inventories	23,330,511	11,203,702
Receivables and prepayments	(30,922,974)	(46,939,175)
Payables and accrued expenses	(53,891,882)	(26,334,370)
Cash generated from operations	292,366,126	496,592,254

23) Related Party Transactions

NKCC Limited is incorporated under the Companies Act with 100% Government of Kenya Shareholding. Outstanding balances arising from Sale and purchase of milk products.

(i) Amount due from related parties:

Kenya Dairy Board	7,307,585.61	8,563,385.61
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(ii) Amount due to related parties:

Government of Kenya (Formerly Ministry Of Special Programs)	2,995,884.00	2,995,884.00
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24) Contingent liabilities

(i) As at 30th June 2015 the company had given guarantees amounting to Kshs 33,342,098 to various Companies and individuals.

(ii) The company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

25) Capital Commitments

Amounts authorized and contracted for 202,918,583

This constitutes ICT Exadata project which the company has contracted to upgrade our computer database to improve on reliability and storage space.

APPENDIX V: MILK VALUE CHAIN

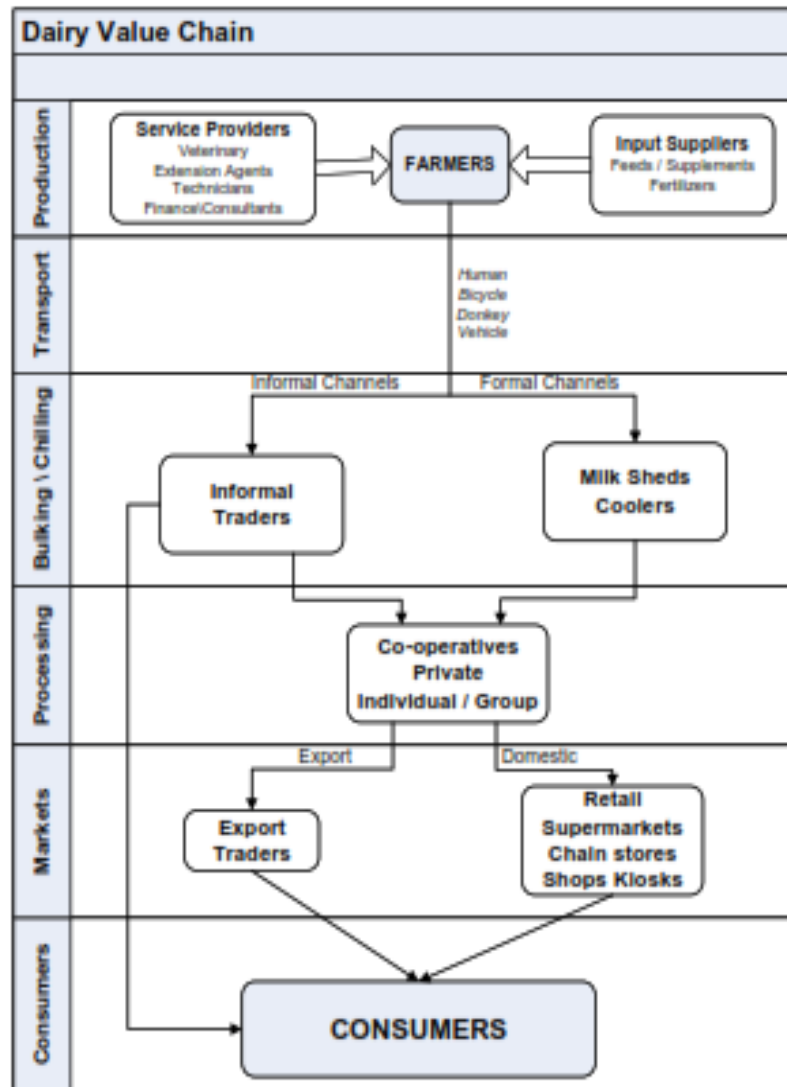
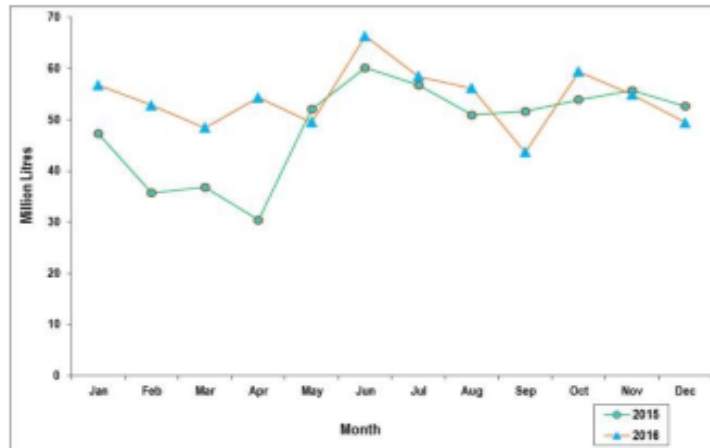


Figure 1: The actors in the dairy value chain in Kenya

Source Kenya National Dairy Master Plan

APPENDIX VI: CURRENT MILK INTAKE

Fig. 12: Milk Intake in the Formal Sector



Source KNBS 2017

APPENDIX VII: MILK SUPPLY DEMAND PROJECTIONS (2010-2030)

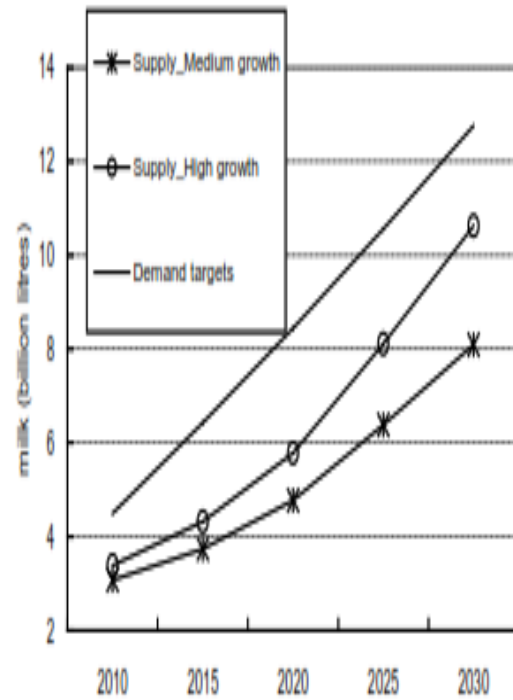
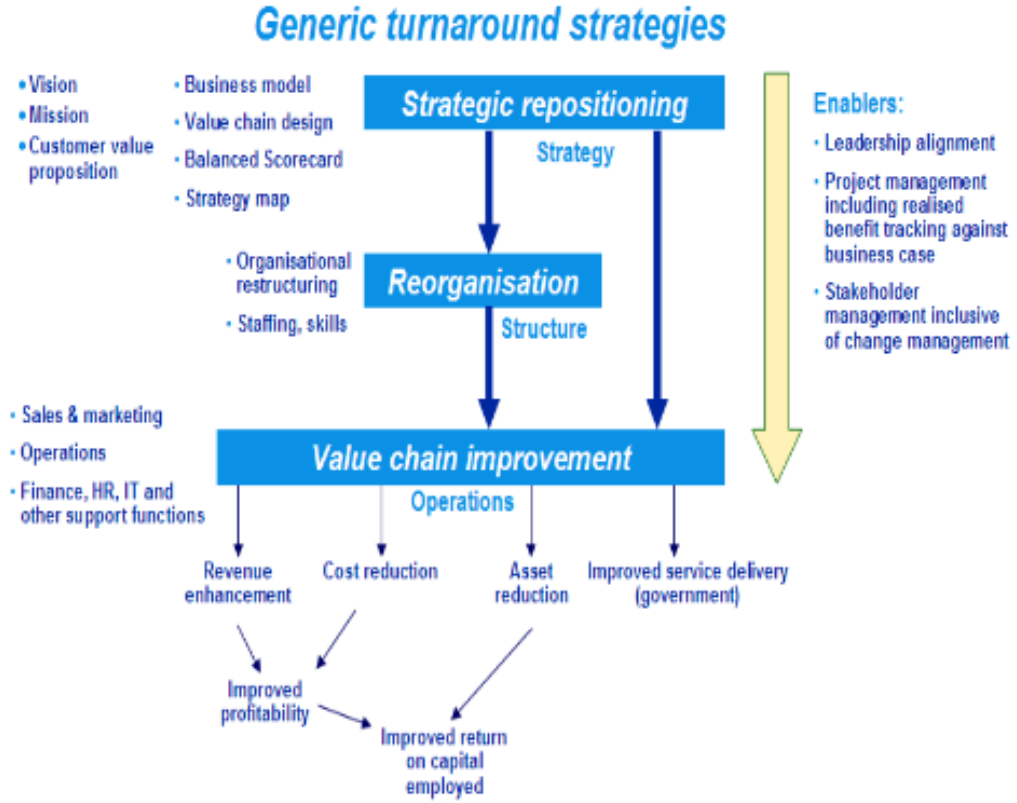


Figure 11: The demand and supply milk balance projections from 2010 to 2030

Source Kenya National Dairy Master Plan

APPENDIX IX: INNOVATION TURNAROUND STRATEGY PLAN



Source: <http://www.turnaround-sa.com>

APPENDIX X: NEW KCC NEW PRODUCTS

