

**RESPONSE STRATEGIES BY MOUNT KENYA BOTTLERS TO
CHANGES IN THE EXTERNAL ENVIRONMENT**

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DECLARATION

This project is my original work and has not been submitted for examination for a degree award in any other university.

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And to God be the glory.

DEDICATION

I would like to dedicate this study to My family and friends who have always encouraged me to study more and for their continuous encouragement throughout this study.

ABSTRACT

Environmental turbulence has led to rapid changes in technology, increases in consumer tastes and preferences and an ever increasing and unpredictable competitive business terrain across the economy. Business managers are therefore preoccupied with trying to align the internal systems of their firms with the ever changing business environment. It is also important to note that while substantial literature exists on firm's responses to the environment, there is limited research that has been done on the response to the operating environment by Mount Kenya Bottlers (MKB). The objectives of this study were; to identify the challenges facing MKB in its external environment and to determine the responses by MKB to changes in the external environment.

This research project adapted a case study research design on Mount Kenya Bottlers Ltd. Primary data was obtained from heads of department of MKB by the use of an interview guide. The interview guide was used to gather data on the study topic which was the responses to changes in the external environment by MKB. The interview was designed to obtain information on the responses by MKB to changes in the external operating environment. A total of six heads of the departments had been targeted for the interview. The heads of department were targeted because it is them who are charged with crafting the right response strategies to the changing external operating environment. The secondary data for this study was obtained from the company's documented response strategies and any other relevant information about the company in relations to the responses to the changing external environmental conditions. Analysis of data was done by content analysis. This is because the data collected was qualitative in nature. The qualitative data was summarized and categorized according to common themes. Only four out of the six top managers, who were targeted for the interview responded. This represented seventy per cent of the total response.

The results indicate that MKB has been faced with rivalry among existing competitors not only from the other coca cola franchise but also from the water companies and EABL's Alvaro. There has also been competition from companies manufacturing juices and other substitute products. The external environment was

also found to pose challenges in terms of the ever changing customer tastes and preferences, strategic leadership and changing technologies and increased cost of energy and production among others. The study findings indicate that MKB utilizes close to ninety per cent of the mother company Coca Cola's strategies as a response to the changes in the external environment. MKB utilized home ground strategies such as hiring of tents and sale of ice to the non-chilled category to supplement on the franchiser's core strategies of MKB including: product, place, promotion and people strategies as a response to the external environment. The firm also utilizes product development strategies, marketing, culture change distribution and ICT strategies among others. In addition to the above generic strategies such as differentiation, focus and cost leadership strategies were also utilized by coca cola. Due to lack of enough time and resources, it is therefore recommended that further research be undertaken on the following areas; the impact of competition posed by EABL's, the effect of the presence of substitute's products to MKBs and the impact of the employee training on MKB Performance

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGMENT.....	iii
DEDICATION.....	iv
ABSTRACT.....	v
LIST OF ABBREVIATIONS.....	xi
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 The External Environment and Organization.....	2
1.1.2 Response Strategies.....	3
1.1.3 The Soft Drink Bottling Industry.....	6
1.1.4 Mount Kenya Bottlers Ltd (MKB).....	6
1.2 Research Problem.....	8
1.3 Objective of the Study.....	9
1.4 Value of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 The Concept of Strategy.....	11
2.3 Organizations and the External Environment.....	12
2.4 Challenges in External Environment.....	14
2.5 Response Strategies.....	15
2. 6 Responses to Challenges in the External Environment.....	18
2.7 Empirical Review.....	20

CHAPTER THREE: RESEARCH METHODOLOGY.....	22
3.1 Introduction.....	22
3.2 Research Design.....	22
3.3 Data Collection.....	23
3.4 Data Analysis.....	23
3.5 Reliability and Validity.....	23
CHAPTER FOUR: FINDINGS AND DISCUSSIONS.....	24
4.1 Introduction.....	24
4.2 General Findings	24
4.3 Discussions and Findings on Challenges.....	24
4.4 Discussions and Findings on Responses.....	25
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	32
5.1 Introduction.....	32
5.2 Summary.....	32
5.3 Conclusions.....	33
5.4 Limitations of the Study.....	34
5.5 Recommendations for Further Research.....	34
5.6 Implications for Policy and Practice.....	35
REFERENCES.....	36
APPENDICES	
Appedix (i): Interview Guide.....	36
Appedix (ii): Sister Franchises to Mt Kenya Bottlers	37
Appedix (iii): Product Profolio.....	38

LIST OF ABBREVIATIONS

COMESA:	Common Market for Eastern and Southern Africa
CSD :	Carbonated Soft Drinks
EABL:	East Africa Breweries Ltd
GOK :	Government of Kenya
MKB:	Mount Kenya Bottlers

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Firms depend on the environment as they draw their inputs such as raw materials which they translate into outputs in the form of products for consumption by the environment. The environment consists of both the internal and external environments. The external environment constitutes the remote, industrial and the operating environment under which firms operate (Ansoff, 1988). The firm's remote environment constitute of factors originating beyond the firm and are in existence irrespective of any single organization's operating political, economic technological and ecological parameters (Pearce & Robinson, 2003).

Firms faced with the prospect of dwindling business opportunities occasioned by environmental turbulence must come up with various responses. Generic strategies such as cost leadership, differentiation, and focus as postulated by Porter (1980) are some of the strategies that could be applied by organizations. This is in addition to operational strategies such as restructuring, benchmarking and diversification.

The environmental turbulence and the liberalization of Kenya's economy has created both opportunities and challenges in the way of doing business by firms. The raise in Kenya's population has not matched the demand especially for food and beverages. There is stiff competition in this industry targeting the same number of customers thereby resulting in dwindling profits by the majority of the firms in the sector. This is particularly in the soft drinks bottling sub sector where major firms such as Coca Cola and Pepsi are having to fight it out with new entrants into the market such as East African Breweries Alvaro and Softa. Mount Kenya Bottlers as one of the key players in the provision of beverages is particularly experiencing stiff competition from majority of these competitors operating within Nairobi city and its environs. This is because of its location within this proximity and its smooth road network which enables competitors to access its customers with ease (www.mountkenyabottlers.co.ke).

1.1.1 The External Environment and Organization

The business environment of the firm consists of all the external influences that affect its decisions and performance. Given the vast number and range of external influences, managers ought to monitor, let alone analyze, environmental conditions. Environmental influences can be classified by the source e.g. into political, economic, social, and technological factors or by proximity thus the micro-environment or task environment can be distinguished from the wider influences that form the macro-environment. Though systematic, continuous scanning of the whole range of external influences might seem desirable, such extensive environmental analysis is unlikely to be cost effective and creates information overload. The prerequisite for effective environmental analysis is to distinguish the vital from the merely important (Holling, 2001).

Organizations today are faced with several issues, which may cripple their functionality, or in some extreme cases render the firms obsolete. These challenges are dependent on the nature of operations of the organization but in general, there are common challenges, which are faced by a majority of organizations. Current technological advancements are on the rise more than in yester years. For an organization to offer services, which are relevant, cost effective and compatible with the society needs, modern technology has to be effectively utilized. The initial cost of acquiring it, maintaining and running operations using the acquired technology is inhibitive. This is worsened by the short lifespan of most technological innovation which imply that companies and or organizations have to reinvest in modern technology as regularly as possible for sustainability (Holling, 2001).

The environment consists of people, the recipients of an organizations services or goods, with fast changing likes, dislikes, preferences, opinions and lifestyles. This is a challenge facing organizations. Generational gaps have created a difficulty in determination of consumer behaviors yet most organizations are investing heavily in customer behavior analysis so as to determine the most appropriate way of matching a customers' needs. Coupled with competition, the challenge of making profit for instance has been pushed to the highs by multinationals. At the same time unstable

economies and currencies are other factors causing constant instability in the running of organizations as planned (Jones, 2004).

Though this has of late been caused by other external factors such as exchange rates, amount of exports and imports, political factors among others, there has been a relatively high incidence of economic instability. Albeit, national economies are recovering from a global economic meltdown today, most organizations have been negatively affected by the meltdown leading to massive layoffs. Also, frauds and cases of fraudulent or questionable business operations and agreements have been on the increase in the recent past. Generally, factors both within and outside the organizations environment are continually impacting negatively on firm success hence there is need for more efforts to be applied if organizations are to meet their objectives (Leonard-Barton, 1992).

1.1.2 Response Strategies

Organizations' alignment to the environment calls for specific strategic responses to the environment for the firm to be able to tap environmental opportunities and deal with the threats accordingly. Organizational change, therefore, requires the firms to adjust and deliver the desired goods and services back to the environment upon tapping the existing opportunities and transforming them into the needed outputs (Ansoff & McDonnell, 1999).

Effective response to the environment demands that firms align their internal capability with the environment. Lack of these alignments forms the basis for failure (Aosa, 1992). The firms' finances, the human resources capacity and capability, other success factors must be put to use as a response to environmental turbulence.

Since the advent of liberalization to date in Kenya, organizations have directed their efforts on how to effectively respond to the challenges and opportunities in the business environment. This has been occasioned by Kenya's current business environmental turbulence. The changes in the environment have been rapid, discontinuous, unpredictable and volatile. Politically, Kenya has moved from the single party system of the 1990's to multi party democracy and then to the current

coalition government. The 2008 post election violence for instance came with a huge business cost. Firms lost their customers and hence a great loss of the much needed revenues. The new constitutional dispensation that led to the creation of counties in Kenya will ultimately lead to county legislations which will have a further influence on ways of doing business. Changes in the economic performance, educational levels, ecology, and socio demographic changes must be critically assessed by organizations so that they can align themselves accordingly.

Organizations should make use of intensive strategies to respond to the changing environment. These are the Growth Strategies on Product/Market Development Matrix (Ansoff, 1990). The matrix allows managers to consider ways to grow the business via existing and or new products; in existing and or new markets-there are four possible product/ market combinations. This matrix helps companies decide what course of action should be taken given current performance so as to improve on a firm's competitive position

The firms can also utilize Market penetration strategies such as market penetration to deal with existing markets and existing products. Product diversification in which a firm creates new products, to get new customers can also be used as a response to the changes in the environment. Diversification where a firm enters new markets where it had no presence before increases its market share. Generic strategies such as cost leadership, differentiation and focus can also be applied.

Burns (1966) argue that the effective organization has integrating devices consistent with the diversity of its environment. The more diverse the environment and the more differentiated the organization, the more elaborate the integrating devices. Lawrence and Lorsch (1967) content that the key to organizational survival tactic then is the ability of the firm to acquire and maintain resources that could be utilized to not only tap the environmental opportunities but also deal with the challenges posed by the environment.

Stalker and Burns (1994) in their studies found out that there are two ideal types of management organizations, which are the extreme points of a continuum along which most organizations can be placed. The mechanistic type of organization is adapted to relatively stable conditions in the external environment. Pathological systems on the other hand are attempts by mechanistic organizations to cope with new problems of change, innovation, and uncertainty while sticking to the formal bureaucratic structure. Burns describes three of these typical reactions. In a mechanistic organization, the normal procedure for dealing with a matter outside an individual's sphere of responsibility is to refer it to the appropriate specialist or, failing that, to a superior. In a rapidly changing situation, the need for such consultations occurs frequently, and in many instances the superior has to put the matter higher still.

1.1.3 The Soft Drink Bottling Industry

In the recent past Kenya's bottling industry has been cascaded with environmental turbulence in its operating environment. This has been occasioned by the changing customer demands on service delivery, distribution, as well globalization. This consumer's changing demands are on health consciousness, products for children, the trendy youth, the sporting world, the aged and the calorie conscious population. Suppliers also share information to address efficiencies and therefore exerting pressure on the minimum order quantities and delivery guidelines to address in transit warehousing and hard currency form payments (Bett,1995).

Government legislation has seen increased taxation of the bottling industry. The overrated excise duty demands on production and packaging has put more financial stress on the beverage manufacturers (Abdalla,2001). Competition in the beverage market has also widened with regional government groupings for trade purposes opening up borders for example the East Africa Community and COMESA. This has introduced cheaper imported soft drinks produced under a protected industry across borders and meant to compete with the locally manufactured soft drinks. This is the industry in which Mount Kenya Bottlers (MKB) finds itself in. It has to come up with responses to address operating environment turbulence.

1.1.4 Mount Kenya Bottlers Ltd (MKB)

Mount Kenya Bottlers Ltd, was founded in 1987 as one of the Coca-Cola bottling firms in Kenya, operating under franchise from the Coca-Cola Company. Coca-Cola international, conducts its business using a franchising strategy. Its mission is to maximize share holder value and this is the same mission for all its franchises/ bottling plants the world over (<http://www.cocacola.co.ke>). The other Coca-Cola bottlers in Kenya are listed out in appendix I.

Franchising is a form of diversification which involves a co-operative strategy between the mother company having a relatively centralized vertical integrative control over the franchises to ensure standardization while at the same time having significant capital injection in the franchises (Hitt, 1997). There is for instance the use by all the franchises the same logo, trademarks, products, services, business format and the marketing strategy. Also, the franchises use similar guidelines on marketing, quality control, technology, engineering and human resources, among others. To a large extent the franchiser prescribes some standardized ways of doing business save for a few adjustments by the franchisee to localize the business strategy, in the genius of thinking global and acting local.

MKB just like all other franchises in Kenya deals with the manufacturing and distribution of carbonated soft drinks (CSD).It also deals with an alternative beverage line (AB Line) of the juices family and water. This is in line with the parent Company's strategy to establish itself as a one single stop shop for anything soft drink. It supports the business by providing ice and fridges for cooling its CSDs, juice and water. The MKB product portfolio is captured in appendix II. The company has approximately 500 employees who are both on contractual and permanent basis. The average sales turn over for the firm stands at over Kshs 1Billion per year (www.mountkenyabottlers.co.ke)

Mount Kenya Bottlers franchise has operated with its over twenty years old production plant without embodying the new changes in manufacturing technology the world over. The need for installation of a more efficient manufacturing technology with a view to reducing its direct manufacturing costs and overheads cannot be

overemphasized. The use of old technology has meant undercapacitation in production, higher costs of manufacturing and extremely low operating margins. More fundamentally, the 2007 post election violence has had its toll on the way of doing business for this firm. At the same time, there is a multiplicity of competitors in the market such as the water firms, the juice firms, in addition to the latest CSD entrant EABL with its Alvaro brand. All these cut into the market share of MKB. There is therefore a need for MKB to re-strategize and reposition itself competitively by coming up with the correct response to this environmental discontinuity (www.mountkenyabottlers.co.ke)

1.2 Research Problem

An important question in the current thinking in strategic leadership is how to address environmental turbulence that has marooned the business environment since the advent of liberalization. Environmental turbulence has led to rapid changes in technology increased changes in consumer tastes and preferences, and an ever increasing and unpredictable competitive business terrain across the economy. Business managers are therefore preoccupied with trying to align the internal systems of their firms with the ever changing business environment. If this is not done then it is highly likely that business may not survive in their operations (Aosa,1992). There is therefore need for research to be undertaken on how business firms faced with an unfamiliar external business orientation will respond to the same.

Increasing pressure from government on the industry for increased taxation, cheaper and available imported substitutes within its operating environment, uncertainties affecting the world production of sugar as the main raw material, the expected shift of the sugar producing countries entering into the production of corn for the production of ethanol for cleaner energy, therefore limiting the sugar acreages, increased number of health consumers and a growing consumer base developing overnight demands along service levels, demands that MKB respond to these happenings in its operating environment by coming up with tailor made responses to address each one of them.

It is also important to note that while substantial literature exists on firm's responses to the environment, there is limited research that has been done on the response to the

operating environment by MKB. Such researches include those of Banda (2006) on responses to the environment by public Health firms, Okoth (2005) on competitive strategies by sugar manufacturing firms and Keranga (2009) on responses by GOK to changes in the operating environment. While all these studies shed light on the nature of responses to the changing environment, they do not specifically deal with MKB.

There exist also other studies which are closely related to the current research. Methu (2003), for instance dealt with responses of bottled water firms in Nairobi to the threat of substitute goods, while Nyangau (2003) did a survey on the nature of competition among soft Drinks in Kenya. At least these researches while shedding light on the bottled firms, they were done almost 8 years ago- since then the business environment has changed drastically. In addition these researchers are more generalized to the bottled water firms and do not give specific reference to MKB. Therefore there, clearly, exists a knowledge gap that needs to be filled by this study. On this basis then, what are the response strategies by MKB to changes in the external environment?

1.3 Objectives of the Study

The objectives of this study were;

- i) To establish the challenges facing MKB in its external environment.
- ii) To determine the responses by MKB to changes in the external environment.

1.4 Value of the Study

The findings of this study will be of great significance to various groups of people. The findings will hopefully assist MKB to appreciate the challenges in the beverages subsector and how to deal with them. It will also assist MKB in forward planning and thus enable it assemble the necessary resources for its strategic plans especially in sales and marketing. MKB will also benefit from benchmarking itself against other CSD firms and make the necessary competitive adjustments.

This research will also add to the body of knowledge of the existing research, and act as a point of reference for further research. The study will identify problems encountered during the research and this will be a pointer on how to deal with such problems in researches related to the current study. It will also hopefully provide the methodology to be used for further research related to this one.

Investors would find the study findings crucial in identifying investment opportunities in the soft drinks sub sector. They will also understand the competitive challenges in the industry and how to face them. The shareholders will get to understand the nature of responses offered to the changing environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the concept of strategy, organizations, the external operating environment as well as the responses to challenges of operating environment. It also covers the empirical review of literature related to the study.

2.2 The Concept of Strategy

The current business environment has been marooned by environmental turbulence. The rapidity of change, its volatility, unpredictability and discontinuous nature demand that organizations come up with a strategy that is capable of tapping the opportunities and dealing with threats in the environment. Strategy is a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. Strategic management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises (Ansoff, 1984).

Strategic planning therefore is that decision making process that aligns the organization's internal capability with the opportunities and threats it faces in its environment. Strategic planning is a top-down, formal, disciplined process to produce fundamental decisions and actions to shape and guide what an organization is, what it does and why it does it. Strategic plans look at the long view. To do strategic planning well, organizations must participate in broad scale information gathering, explore various alternatives, and place an emphasis on the future implications of present decisions. Strategic planning requires an in-depth assessment of the environment inside and outside the organization. It is this assessment that sets strategic planning apart from traditional long range planning. Strategic planning tries to anticipate new trends and build in flexibility to adapt to changes through periodic updates and contingency plans (Smart & Vertinsky, 2006).

For a strategist to be able to adopt this approach to management there is a need to understand in detail the complexities of the interrelationships that exist between

different parts of the organizational structure. In the majority of businesses, three different organizational levels can be identified that is the corporate level, the business unit level, and the product level. Corporate strategy deals with the allocation of resources among the various business's or divisions of an enterprise. At the corporate level, the decisions made are concerned principally with the corporate strategic plan and how best to develop the long-term profile of the business. On the other hand business strategy exists at the level of the individual business or division that addresses primarily the question of competitive position. Following on from this, each business unit should, within the resources allocated by corporate headquarters then develop their own strategic plan. Finally functional or product level strategy is limited to the actions of specific functions within specific businesses. Marketing plans need to be developed at the product level. Plans at all three levels need then to be implemented, the results monitored and evaluated and, where necessary, corrective action taken (Hofer & Schendel, 1978).

2.3 Organizations and the External Environment

A business does not operate in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external operating factors in the environment. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies. The main factor that affects most business is the degree of competition and how fiercely other businesses compete with the products that another business makes (Jones, 2004).

Porter (1984) identifies five structural variables influencing competition and profitability. Porter's Five Forces of Competition framework views the profitability of an industry as indicated by its rate of return on capital relative to its cost of capital as determined by five sources of competitive pressure. These five forces of competition include three sources of horizontal competition: competition from substitutes, competition from entrants, and competition from established rivals; and two sources of vertical competition: the bargaining power of suppliers and buyers. The strength of each of these competitive forces is determined by a number of key structural variables.

The other factors that can affect the business are social, economic, technological, political and ethical among others. The social factors dictate how consumers, households and communities behave and their beliefs. For instance, changes in attitude towards health, or a greater number of pensioners in a population. The legal front deals with the way in which legislation in society affects the business for example changes in employment laws on working hours.

At the same time economic factors point out how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and European and global economic factors. Politically, changes in government policy might affect the business for example a decision to subsidise building new houses in an area could be good for a local brick works. Technology deals with how the rapid pace of change in production processes and product innovation affect a business while ethics covers what is regarded as morally right or wrong for a business to do. For instance should it trade with countries which have a poor record on human rights (Holling, 2001).

The external environment is divided into two parts namely directly interactive and indirectly interactive environments. Directly interactive environment has an immediate and firsthand impact upon the organization for example a new competitor entering the market. Indirectly interactive environment on the other hand has a secondary and more distant effect upon the organization. New legislation taking effect may have a great impact for example, complying with the country governance legislation in Kenya.

2.4 Challenges in External Environment

Markets are changing all the time for organization. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly include customers developing new needs and wants, new competitors entering a market and new technologies meaning that new products can be made. Others are a world or countrywide event happening for example Gulf War or foot and mouth disease and the government introducing new legislation for example increases minimum wage (Pfeffer & Salancik, 1978).

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in. Many small rival businesses for example, a shopping mall or city centre arcade have close rivalry. A few large rival firms, for instance washing powders or Coke and Pepsi and a rapidly changing technology for example the mobile phone market have their competition too.

Organizations today are faced with a host of issues, which may cripple their functionality, or in some extreme cases render the organizations obsolete. These challenges are dependent on the nature of operations of the organization but broadly, there are common challenges, which are faced by a majority of organizations. Technological advancements today are on the increase more than in the previous century. For an organization to offer services, which are relevant, cost effective and compatible with the society needs, modern technology has to be employed. The initial cost of acquiring it, maintaining and running operations using the acquired technology is inhibitive. This is worsened by the short lifespan of most technological innovation which imply that companies and or organizations have to reinvest in current technology frequently so as to sustain their relevance (Holling,2001).

Considering that today's environment consists of the people, who are the recipients of an organizations services or goods, the fast changing nature of peoples likes, dislikes, preferences, opinions and lifestyles is thus a challenge facing organizations. Generational gaps have created a difficulty in determination of consumer behaviours yet most organizations are investing heavily in customer behaviour analysis so as to determine the most appropriate way of matching customers' needs. Coupled with competition, both fair and unfair the challenge of making profit for instance has been pushed to only the top notch large scale organizations (Tushman & Romanelli, 1985).

Unstable economies and currencies are other factors causing constant instability in the running of organizations as planned. Though this has of late been caused by other external factors such as exchange rates, amount of exports and imports, political factors among others, there has been a relatively high incidence of economic instability in the recent past. Albeit, national economies are recovering from a global economic

meltdown today, most organizations have been negatively affected by the meltdown leading to massive layoffs (Pfeffer & Salancik, 1978).

Frauds and cases of fraudulent or questionable business operations and agreements have been on the increase in the recent past. The custodians of an organizations policy are increasingly bending the organizations guidelines creating loopholes in various systems. This has led to heavier investments in more secure operational systems to avoid losses created by those who are meant to safeguard it. It is worthy to note that this has led to more stringent recruitment procedures, which attempt to assess the risk an organization invites once it employs an individual. This is upcoming trend and most organizations are grappling with it today. In essence, factors both within and outside the organizations environment are continually impacting negatively on the success hence there is need for more efforts to be applied if organizations are to meet their aims (Jones, 2004).

2.5 Response Strategies

Organizations faced with environmental turbulence must come up with strategic choices on how to address opportunities and challenges occasioned by the changes in the external environment. These are response strategies to effectively do this. Firms must begin with the analysis of their external environmental opportunities and challenges and match them with their internal strengths and weaknesses. Any mismatch between the internal capability of the firm and the external environment is a recipe for firm failure (Ansoff and McDonnell ,1990; Aosa, 1992).

Firms must therefore adapt to such responses as cost leadership, differentiation and focus strategy so as for them to remain competitive in the market (Porter, 1985). It is through such responses in addition to restructuring, process reengineering and effective managerial functions- as core ingredients of strategic leadership- that firms could maximize wealth. Firms can either adapt long term or short term strategic responses in their corporate and strategic business unit strategies respectively.

Responses that can change a firms business and strategy may also include emerging technologies often introduced by existing firms entering new markets or by new

organizations or introducing new products all together. Organizations can also modify organizational structure and procedures to fit into the unpredictable, unexpected changes in the environment hence firms must be flexible in the utilization of their resources to as to effectively respond to the competitive environment (Byars, 1991).

Firms can also adapt alternative types of strategies such as planned strategy where leaders formulate and strive for implementation with the minimum of distortion Budgets, schedules etc. This strategy is formulated in the environment that is fairly predictable or controllable. Entrepreneurial strategy on the other hand can also be used. This one is more influenced by the individual, not so precise or articulate as planned strategy, requires an ability to impose one's vision on the organization. Entrepreneurial strategy provides flexibility at the expense of specificity and articulation of intentions. In addition there is ideological strategy in which shared vision collectively pursued is an ideology. Intentions can usually be identified (Indoctrination, credo etc) and positively embraced by members of the organization, not passive acceptance. There is also the umbrella strategy a situation where relax control, leaders set guidelines for behaviour, define boundaries and let actors manoeuvre within (Mahon & Murray, 1981).

All organizations actions fall under the umbrella pricing strategies for example. Umbrella strategy can be both deliberate and emergent. If leadership can direct, organizations can be directed and move towards planned or entrepreneurial. When it can hardly nudge, we move towards more emergent strategies. Umbrella strategies require the right balance between pro-action and reaction. Equally process strategy can be used. Here the leader controls the process of strategy making whilst leaving the content of strategy to others. Behaviour is both deliberate and emergent. Leaders control the staff and organization structure thereby influencing the strategy process. Unconnected Strategy is another type that can be utilized. One part of the organization with considerable discretion sometimes a single individual because it is only loosely coupled to the rest is able to realize its own pattern in its stream of actions. This strategy can also be deliberate or emergent. Emergent is in the context of the organization and deliberate from the perspective of the individual (March, 1991).

Consensus strategy or emergent may converge on to the same theme or pattern that it becomes pervasive. Unlike the ideology strategy which has a central focus intentionally. Consensus strategy can be the product of a host of individual actions can be deliberately hosted by some actors. Result Collective Action but not necessarily collective intent. Lastly imposed strategy can also be used where the environment is not always acquiescent or benign. Strategies can be imposed from outside, external individuals/group with influence. The strategy is then deliberate because the organization could not resist. Strategy provides a coherent blueprint to bridge the gap between the realities of today and a desired future. It is the disciplined calculation of overarching objectives, concepts, and resources within acceptable bounds of risk to create more favorable future outcomes than might otherwise exist if left to chance or the hands of others. It is the consideration of the relation of how to apply resources to achieve desired results in a specific strategic environment over time (Kimberly & Evanisko, 1981).

2. 6 Responses to Challenges in the External Environment

To manage the changes in the external operating environment, organizations must be both risk-aware and risk-astute. Managers must understand where their strategic, operational and service delivery uncertainties lie, and how these can create risk to the achievement of the firm's objectives. Organizations must have the capability and capacity to manage and respond to the continually changing environment. They must put in place systems, structures and processes that enable them to identify and mitigate risks in the external operating environment. The Top Management Leadership Team determines the nature and level of strategic risk by actively defining and assessing the short and medium-term context of the various sectors, stakeholders and customers of the organization (Kimberly& Evanisko, 1981).

The firm must consider opportunities afforded by the forward environmental scanning and identifies key initiatives and strategic priorities as the first expression of its response to the external operating environment. The Top Management Leadership Team has the collective responsibility of identifying the key capability and capacity requirements to support the strategic direction and priorities, and assessing the level of uncertainty of performance or productivity. Each department is required to identify any

area of performance or delivery risk to its operations and services and put in place appropriate mitigations and contingency plans (Eisenhardt & Martin, 2000).

Organizations could make use of intensive strategies as a response to the external operating environment. These are Ansoff (1990) Growth Strategies on Product/Market Development Matrix.

The matrix allows managers to consider ways to grow the business via existing and/ or new products; in existing and/ or new markets there are four possible product/ market combinations. This matrix help companies decide what course of action should be taken given current performance so as to improve on a firm's competitive position. Market penetration strategies deal with existing markets and existing products of firms responding. Here a firm undertakes market penetration when it enters a market with current products and by so doing gains competitors' customers. This strategy also attracts non-users of a firm's product or convincing current clients to use more of the firm's products. This is achieved through advertising or increasing sales force, service points, or even brand repositioning.

Also product development on existing markets and new products could also be used as an intensive strategy. A firm with a market for its current products might embark on a strategy of developing other products catering for the same market. Frequently, when a firm creates new products, it can gain new customers for these products. Hence, new product development can be a crucial business development strategy for firms to stay competitive (Nyaga, 2007).Market development on new markets and existing products is the other intensive strategy that could be utilized. An established product in the market place can be targeted to different customer segments as a strategy to earn more revenue for the firm to satisfy stakeholders. Apart from the above organizations can use diversification where company enters new markets where it had no presence before thereby increasing its market share. New skills, new techniques and new facilities are required. This leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experiences.

Organizations on the other hand could also utilize generic strategies as responses to the external operating environment especially competition. Porter (1980) has come up with

generic competitive strategies to deal with his five forces which determine industry competition. These are cost leadership, differentiation and focus. These could either be handled singularly or simultaneously depending on the firm's management capabilities and priorities. Also, the business environment now more than ever before is punctuated with turbulent factors determining industry competition. These are the power of the customers, the power of suppliers, rivalry among competitors, entry and exit barriers, among others. The responses to the operating environment must therefore be in relation to these forces.

2.7 Empirical Review

Smart & Vertinsky (2006) carried out a study on corporate responses to crises. This study examined the relationship between the type of external environment in which a firm operates and the repertoire of strategic responses the firm develops to cope with crises. The findings suggest that an executive's propensity to adopt a particular strategic posture depends on his perceptions of how well his firm can control its environment and on the costs of introducing change into the organization. Zajac and Kraaz (2007) in their study examined the environmental and organizational forces, counter-forces, and performance consequences of strategic restructuring in the higher education industry. The study proposes a diametric forces model to address the conflicting pressures for strategic change faced by these organizations, and uses extensive longitudinal data spanning the last two decades to examine the ways in which restructuring has been used as a successful adaptive response. The results suggest that, contrary to ecological predictions, restructuring is a predictable, common, and performance-enhancing response to changing environmental conditions.

Pfeffer and Salancik (1978) propose that through its influence on the distribution of power and control within organizations, the environment affects the selection and removal of top executives; changes in the environment tend to encourage the selection of top-level managers more appropriate for the new environment. Mahon and Murray (1981) cogently argued that the transition from a regulated to a deregulated environment involves dramatic environmental changes for a firm and its managers. In discussing executive succession in the context of organizational theory, Pfeffer and Salancik's (1978) basic thesis is that "environmental contingencies affect the selection

and removal of top organizational administrators to make the organization more aligned with its environment. More generally, they propose that organizations' environments influence organizational behavior and structure

Both Thompson (1967) and Pfeffer and Salancik (1978) believe, however, that the influence of environment alterations on changes in the dominant coalition may be constrained or delayed by current top managers' using their institutionalized power base to hold onto their positions. Davis (1951) noted that "It is evident that leadership requirements (skills necessary) must change radically with fundamental changes in the leadership situation. He also noted that economic changes associated with changing business conditions are usually accomplished by considerable executive change. Miller et al. (1982) found that firms operating in dynamic environments tended to be managed by executives with an internal locus of control. In explaining their results, Miller et al. discuss the influence of the environment on managerial requirements: "dynamic environments may require that firms be run by internal executives. They demand innovative and bold strategies that are most likely to be forthcoming from executives who are confident about their abilities to control the destiny of their firms.

Other studies have been undertaken on the responses by organizations to challenges in the external environment. These include those of Banda (2006) on responses to the environment by public Health firms, Okoth (2005) on competitive strategies by sugar manufacturing firms and Keranga (2009) on responses by GOK to changes in the operating environment. While all these studies shed light on the nature of responses to the changing environment, they do not specifically deal with MKB. There exist also researches which are closely related to the current research. Methu (2003), for instance dealt with responses of bottled water firms in Nairobi to the threat of substitute goods, while Nyangau (2003) did a survey of the nature of competition among soft Drinks in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research methodology of the study. It highlights the research design used, the data collection, analysis and presentation method. It also covers the reliability and validity of the data and instruments used.

3.2 Research Design

This research project adapted a case study research design on Mount Kenya Bottlers Ltd. It involved an in-depth investigation of the responses by MKB to changes in the external operating environment to help in understanding of the phenomenon. The research design was best suited for this study due to the lack of data over a longer continuous period of time taking cognizant that most strategic approaches are emergent in nature. Case studies place more emphasis on a full contextual analysis of fewer elements or conditions and their interrelations, which relies on qualitative data (Cooper & Schindler, 2008).

3.3 Data Collection

The study made use of both secondary and primary data. Primary data was obtained from four out of the targeted six heads of department of MKB. The interview guide was used to gather data on the study topic which was the responses to changes in the external environment by MKB. The interview was designed to obtain information on the responses by MKB to changes in the external operating environment. Also, the interview guide contained questions on challenges facing MKB in its external environment. The four heads of the departments who responded to the interview are the heads of IT, production, sales and marketing and human resources. The heads of department were targeted because it is them who are charged with crafting the right response strategies to the changing external operating environment.

The secondary data for this study was obtained from the company's documented response strategies and any other relevant information about the company in relations to the responses to the changing external environmental conditions. Secondary data

was also obtained through a review and analysis of relevant documents, key among them the company`s strategic plan and other relevant documentation for this study.

3.4 Data Analysis

Content analysis was used in data analysis and presentation since the data collected was qualitative in nature. Content analysis is used mostly to arrive at inferences through a systematic and objective identification of the specific messages. Researchers such as (Annule, 2003), (Keranga, 2009), (Mogeni, 2008) and (Karambu, 2004) have successfully used content analysis in their research.

3.5 Reliability and Validity

Reliability is concerned with consistence of measures. The level of an instruments` reliability is dependent on its ability to produce the same results when used repeatedly. Validity refers to whether an instrument actually measures what it is supposed to measure, given the context in which it is applied (Babbie & Mouton, 2001).

To achieve validity and reliability, data was checked for coding errors and omissions. The data received was also verified for accuracy and completeness of all the entries to ensure reliability was achieved.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings of the study. It covers general findings, and the discussions of the study. The chapter discusses the challenges facing MKB as well as the response strategies to the changes in the external environment.

4.2 General Findings

The main objective of the study was to establish the responses to changes in the external environment by Mt. Kenya Bottlers. The study also sought to determine challenges facing MKB in its external environment. Data was collected by way of an interview of six heads of department. The data collected was in line with the objective of the study. The interview was conducted by a research assistant from the local area of the target population.

A total of four heads of department responded to the interview. This was an adequate response rate and could therefore be used as a basis for drawing conclusions. The analysis and presentation of data was done through content analysis. This is because the nature of data collected was qualitative.

4.3 Discussions and Findings on Challenges

The study findings indicate that MKB faces several challenges in its external environment. The greatest challenge is on the increased competition posed by great multi nationals such as EABL's Alvaro. At the same time MKB market share is experiencing competition from substitute products such as milk, bottled and piped water in addition to several local and imported juices found in the supermarket shelves. The increasing cost of fuel and electricity is also affecting MKB operations. This is in addition to the ever changing nature of customer tastes and preferences. The Nairobi city being not far away from Nyeri town, the hub of MKB has seen increased competition from several firms whose headquarters are in Nairobi. These findings are consistent with empirical literature by Banda (2006) and Methu (2003). The two researchers found that the increased competition and the tread of substitute goods are

some of the challenges facing business firms. The literature review by Ansoff and McDonnell (1990) and Porter (1985) also point out to similar findings. At the same time, substitute products, changing customer tastes and preferences and government legislation which were found to affect MKB are also found in the literature of Hollings (2001), and Okoth (2005).

The rains especially around Mt. Kenya region, which forms a bigger territory for MKB is yet another challenge. This causes occasional flooding, making roads impassable and also provides a free water substitute to coca cola's Dasani. This is besides the challenges posed by government legislation especially in form of taxation which keeps on changing from time to time.

4.4 Discussions and Findings on Response Strategies

Interviewees were asked about what they considered to be important responses to the challenges in the external environment. From the study findings the factors considered to be important responses include; increased distribution of products which was considered to be important as the response at the top on the increased demand for MKB products. This is followed by having the most qualified and experienced staff. Increased customer care was found to be the third most important factor as a response to the external environment. The finding also point out at increased promotion, advertising, trading and IT as part of the firm's responses. This is in addition to increased trading and staff training. The others are organizational structure and staff experience among others.

4.4.1 Franchising

Findings indicate that MKB has utilized franchising as a response strategy to a large extent. Franchising is a business strategy in which the franchiser or parent company wields immense control over the franchise. Coca Cola international as the parent company controls this franchise in terms of standards such as advertising and marketing. As a response strategy the findings indicate that MKB utilizes this strategy in relation to the challenges in the external environment. The study findings indicate that MKB has a foreign majority shareholding. This means that most of the strategic

decisions are controlled by the mother firm Coca Cola international. The study findings indicate that coca cola has been running adverts and marketing promotions covering MKB. The parent company has also instructed the franchise to undertake product diversification as a response to the changes in the external environment. The franchising as a response strategy was also found to have been used by Kisii bottlers' ltd in a study on competition at Kisii bottlers by Mogeni (2008). Franchising as a response strategy to the changing environment has also been identified in the writings of Pearce & Robinson (2003), Ansoff & McDonnell (1999) and Hitt (1997).

4.4.2 Professionalism and Experience

From the findings almost sixty percent of the employees have worked for MKB for more than six years while twenty five percent have been with the firm for three to five years. Fifteen percent of the work force has worked for the firm for less than three years. Due to the long experience by majority of MKB employees, there is a higher level of specialization. At the same time more than fifty percent of the MKB employees possess professional qualifications on their areas of specialization. Professionalism and experience have also been identified as being vital a response strategy in the empirical literature of Bahati (2010), Bett (1995) and Zollo & Winter (2002).

4.4.3 MBL's Product Diversification Strategy

MKB's core business is in the sale of CSDs. However, due to increased competition this firm has utilized diversification strategy so as to tap in more markets. Her Dasani water has been created to handle competition from substitute products. Dasani contributes close to four percent of the revenue streams for Coca Cola. Other products on the MKB portfolio include Minute Maid and Five Alive among others. Product diversification has also been undertaken in terms of shape for example in the case of a new Fanta bottle. This has been done to make the product to be more appealing in relation to those of competition for example Alvaro and Softa.

Diversification as a strategy has also been discussed in the literatures by Jones (2004) on organization theory, Abdalla (2001) when writing about strategic marketing strategies of soft drink industries and Kotler (2000) on marketing management.

4.4.4 Marketing Strategies

The study findings indicate that MKB has been involved in aggressive campaigns. The franchiser has utilized the manipulation of the marketing mix such as place, product, and promotion to increase the market share. In the last four years it has participated in various promotions which have been partly sanctioned by Coca cola. This includes the Wahi Kuwahi promotion which had ninety percent success level, successive development of Burn juice, advertising as well as other promotions. These strategies have led to increased competition by MKB in the market place. Eighty percent of the interviewees agree that MKB has utilized product strategies to a higher degree as a response to the external environmental. New product development, quality improvement, branding and product distribution are some of the strategies so far employed by this firm.

The interviewees pointed out that product strategies have been taken up by new product development in the last five years by MKB. These are the Coca cola zero, Dasani sparkling, Minute maid as well as Sunfill among others. This has been a response to the increased competition from the juices and water products. The Coca cola variants have also been improved by MKB.

The pricing strategy adjustments and ranges for example the 300mls, 500mls, and 1 litre respectively have also given MKB some competitive edge. The findings indicate a higher percentage of advanced branding by Coca cola as a response to competition. Almost all the products and premises of MKB are branded Coca cola. Uniforms, umbrellas and even billboards in addition to vehicles are branded Coke. This increases Coca cola image positioning at the market place. There is also quality packaging of all the coke products such as sodas, the juices and Dasani. The customers have more confidence and higher acceptability of Coca cola products. The certification of Coca cola products by the Kenya bureau of standards has also added to the perceived high quality making the products very competitive.

As part of the market development strategy, MKB has developed an extension distribution network of its products. The company has several cars and trucks all over its territory which undertake effective product distribution. At least ninety percent of the retail outlets and supermarkets in Nyeri County are stocked with MKB products in one way or the other. Findings also point out a hundred percent Coca cola brand availability in the market. Extension distribution is a success in this area through a network of heavy investments in distributors who stock one hundred percent of the coca cola products and whose core business is in the distribution of coca cola brands. The presence of corporate clients' portfolio such as supermarket chains and hotels in the chain of distribution also ensures that the MKB products reach as many consumers as possible. The findings indicate a strong presence of the sales representatives who monitor the distributor and retail activities in the market all the time. These findings on the use of marketing strategies such as product promotion and distribution by MKB are consistent with the literature by Bahati (2010) who did research on response strategies by Government Press and Bett (1995) who investigated the strategic marketing of daily products in Kenya. Literature on the same is also found in the works of Kortler (1998) who wrote on marketing management and Kraatz (2007) who dealt with diametric forces of strategic change.

4.4.5 Restructuring

The study findings indicate that MKB has been involved in the restructuring to cut on costs. The firm has undertaken management changes to the entrance of highly educated employees who are capable of changing with the changing times. Jobs have been redesigned with specific key performance targets. This has sent a reduction in the overall cost of production. The disposal of old and unserviceable vehicles, old plant and equipment and the purchase of new vehicles and equipment have greatly improved the company's revenue strenuous.

Equally, some of the non-core functions such as printing and auditing and even transportation have been outsourced to some level so as to give the company time and opportunity to concentrate on the core business of CSDs. These findings are consistent with empirical studies by Mogeni (2008) who found that Coca colas' Kisii Bottlers

also utilized restructuring as a competitive strategy. Such a strategy has also been identified in studies by Kombo (1997) and Leonard Barton (1992).

4.4.6 Utilization of ICT

MKB has embraced ICT usage to a large degree. Eighty percent of the employees and especially management staff are ICT compliant. The product processes and communication is now also certified and IT savvy. Use of ICT has seen Fanta bottle modified whereby the bottle's aesthetics has been enhanced competitively. MKB is considering advancing her IT department so as to be in tandem with the continuous environmental demands. Indeed even record keeping is now under e-records at MKB.

4.4.7 Culture Change

A positive culture change is at the core of MKB business strategy. Positive customer care service at MKB is almost at ninety percent. Customer care is the second most important response to competition by MKB. The firm has provided coolers to its customers and technician to repair the coolers on a routine basis. Ice boxes are also provided together with routine supply of ice. This has made it little bit difficult for the competitors to penetrate this non fridge market segment.

Customer care has also been improved through enhanced communication between the customers and MKB. There is daily business communication between the firm and its customers. This communication has been made possible through computerization whereby customers reach the firm's website faster and quickly. MKB has also invested heavily in ensuring total coke availability in the market at all times. This is in line with the parent company's strategy of positioning the coke brand at the top of the company's brand flagship. A positive corporate culture has been identified to be a core competitive strategy by March (1991) on exploration and exploitation in organizational learning and Kortler (1995) on transformational leadership

4.4.8 Generic Strategies

Cost leadership, focus and differentiation strategies have also been utilized by Coca colas' MKB as a response to the ever changing external environment. Cost leadership

has been applied in the areas of effective procurement and outsourcing of more core functions such as auditing, transportation and printing among others. The utilization of modern ICT in addition to the use of modern machines for production has created a competitive edge for the firm. Trained and experienced engineers, sales force and other staff have increased the levels of efficiency thereby leading to reduced cost by MKB.

MKB has applied differential strategy through the unique Dasani packaging and charging the same Dasani for a premium price. The coca cola products have been differentiated in the eyes of the customer as being higher quality and in compliance with international standards. Differentiation in terms color, shape and packaging of MKB products has given the firm a competitive edge.

The findings indicate a major concentrating focus by MKB. The various staff handles various duties. Merchandisers do merchandising while retail sales force zeros on retailing. The corporate sales team concentrates on the corporate clients while technicians deal with cooler problems. Product ranges are also tailored to meet specific market wishes or segments. Coke zero is sugarless and is meant for those who are sugar conscious. This is also the case for sparkling Dasani. MKB's Minute maid is meant to be a response strategy to the juices competition. Meanwhile Dasani is for the water market. These findings on cost leadership, differentiation and focus strategy as key responses to the external environment have been echoed in various literature. This includes Porter (2003) on competitive strategy and Smart & Vertinsky (2006) on strategy and the environment.

CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the summary, conclusions and recommendations of the study. It highlights the limitations as well as implications of the study for policy and practice.

5.2 Summary

The main objective of the study was to find out the responses of MKB to changes in the external environment. The study also sought to find out the nature of competition MKB was facing in its business market. A study was subsequently carried out and the top managers targeted responded to the interview. This represented seventy percent of the total response, a rate that is good enough as a basis for arriving at conclusions.

The results indicate that MKB has been faced with rivalry among existing competitors such as other coca cola franchises, companies manufacturing juices, water companies, EABL's Alvaro and other substitute products. The external environment was also found to pose challenges in terms of the ever changing customer tastes and preferences, strategic leadership, changing technologies and increased cost of production among others.

The study findings indicate that MKB utilizes close to ninety percent of the mother company Coca cola's strategies as a response to the changes in the external environment. This is because MKB operates under business franchising a strategy that gives more control to the mother firm over its franchises. The findings also indicate that MKB utilized home ground strategies such as hiring of tents and sale of ice to the non-chilled category to supplement on the franchiser's core strategies of product, place, promotion and people as a response to the external environment. Promotions such as Coca cola Wahi Kuwahi and Coca cola Zero were utilized to give the firm more market reach and increased sales and market share. The firm also utilizes product development strategies, marketing, culture change distribution and ICT strategies among others. In addition to the above, generic strategies such as differentiation, focus and cost leadership are also utilized by Coca cola. MKB has offered high quality

products, branded its products and established an effective distribution network to remain profitable.

MKB relies on professionally qualified and experienced human resources as a response to the external environment. Product diversification, promotions and personal selling together with ICT utilization were part of the response strategies by MKB to the external environment. Good customer care, round the clock business surveillance, ice and the cooler provision besides improved communication were adopted as the response strategies by MKB. This has endeared the firm to the customers.

5.3 Conclusions

Mt Kenya bottlers just like other coca cola franchises, faces several challenges in the external environment. The greatest challenge is increased competition particularly from existing competitors, substitute products and new entrants in to the industry such East African Breweries' Alvaro. The other challenges include the ever changing information technology, changing government legislation, customer tastes and preferences as well as the rising costs of production, among others.

Mount Kenya Bottlers has responded to the challenges in the external environment through strategic leadership, franchising, cost leadership and restructuring. Other strategies they have used include improved promotion, distribution and product development. The firm has also embraced new technologies and positive culture change.

5.4 Limitations of the Study

This study was not without limitations. The top management to whom the interview was directed is a very busy category and did not have adequate time at their disposal to adequately respond to the interview. Also, the unwillingness of the interviewees to give the right response was another limiting factor. The respondents were suspicious that such study could expose their competitive advantage to their competitors. Equally the top managers were jittery about exposing their identity for fear that the firm would not be comfortable with such an exposure of the firm's strategies.

Limited resources on the part of the researcher was another limitation. The research lacked adequate funding for conducting the research.

5.5 Recommendations for Further Research

Due to lack of enough time and resources, the study did not cover fully the objectives stated. It is therefore recommended that further research be undertaken on the following areas;

The impact of competition posed by EABL

The effects of the presence of substitute products to MKBs productivity and

The impact of the employee training on MKB performance

5.6 Implications for Policy and Practice

From the study findings, there are several implications for policy and practice. There is a need for MKB to invest more on research and development. This is because R &D could help unravel issues of competitive strategy, product development and new markets. It is also necessary that Coca cola allows the local franchises to come up with home grown product and service portfolio that could go a long way in addressing the local customer needs. It is imperative that Coca cola undertakes market differentiation especially in its non core products like Dasani so as to address market segments that have not been catered for. The firm should establish a more elaborate corporate governance system in its management.

It is necessary that legislation affecting business operations should not be reviewed so frequently by government to the point of causing confusion in the strategic planning of firms. Ideally such reviews should take place in advance before companies like MKB make their strategic plans. This is for purposes of aligning business strategy with government legislation.

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APPENDICES

Appendix (i)

Interview Guide for Identifying the Respose strategies by Mout Kenya Bottlers to Changes in the external Enviroment

1. What challenges does your organization face in its external environment?
2. What is the impact of those challenges in terms of profitability of your firm?
3. How has your organization responded to the challenges your organization is facing in the external environment?
4. What key capabilities do your organization need to ensure it is has a competitive advantage in the market?
5. What products/services and markets represent the greatest potential for growth and require the most investment and resource allocation?
6. Which are your internal core competencies?
7. What are some of your weaknesses as a firm?
8. What are some of the opportunities available for your organization?
9. What else can your firm do to ensure that it has a competitive edge in the market place?
10. Which specific contributions do your stakeholders bring to your to make it more competitive?

Appendix (ii)

Sister Franchises of Mount Kenya Bottlers Limited

Equator Bottlers Ltd

Kisii Bottlers Ltd

Coast Bottlers Ltd

Nairobi Bottlers Ltd

Rift Valley Bottlers Ltd

Source: (<http://www.cocacola.co.ke>).

Appendix (iii)

Product Portfolio of Mount Kenya Bottlers Limited

Cocacola

Fanta (Orange, Pineapple, Black Currant, Apple)

Sprite

Krest Bitter Lemon

Krest Gingerale

Krest Tonic Water

Stoney Tangawizi

Dasani

Five Alive

Splash

Sunfill

Source: (www.mountkenyabottlers.co.ke).