

**THE INFLUENCE OF EXTERNAL ENVIRONMENT ON THE PERFORMANCE  
OF NETWORK MARKETING FIRMS IN KENYA: A CASE STUDY OF  
DYNAPHARM KENYA LTD**

**BY**

**TUSHIMIRE CAROLINE KAPERRE**



**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS  
ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF  
NAIROBI**

**OCTOBER 2011**

## DECLARATION

I declare that this is my original work and has not been presented in any other University or College for Examination or Academic purposes.

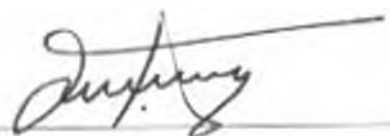
Signature:  \_\_\_\_\_

Date: 02/11/2011

**TUSIIMIRE CAROLINE KAPERRE**

**REG NO: D61/75574/2009**

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

Signature:  \_\_\_\_\_

Date: 08/11/2011

**DR. J.M. MUNYOKI**

## ACKNOWLEDGMENTS

It has been an exciting and instructive study period in the University of Nairobi and I feel privileged to have had the opportunity to carry out this study as a demonstration of knowledge gained during the period studying for my master's degree. With these acknowledgments, it would be impossible not to remember those who in one way or another, directly or indirectly, have played a role in the realization of this research project. Let me, therefore, thank them all equally.

First, I am indebted to the almighty GOD for all the blessings he showered on me and for being with me throughout the study. I am deeply obliged to my supervisor Dr. J.M Munyoki for his exemplary guidance and support without whose help; this project would not have been a success. Finally, yet importantly, I take this opportunity to express my deep gratitude to the lasting memory of my loving family, and friends who are a constant source of motivation and for their never ending support and encouragement during this project.

## **DEDICATION**

This project is dedicated to my darling Husband Otaremwa Locus, and my family.

## ABSTRACT

This study sought to determine the influence of external environment on the performance of network marketing firms in Kenya, a case of Dynapharm firm Kenya. The main purpose of the study was to investigate the influence of external environment on the performance of network marketing firms in Kenya, thus Dynapharm. The respondents of this study were the managerial staff working at Dynapharm Firm. The study focused particularly on the departmental heads of this firm in the country. This study utilized an interview guide used in various previous research projects to collect qualitative. The response received was analyzed by content analysis.

From the findings, the study established that the external environment influences performance of network marketing firms both positively and negatively. The study further established that the influence of external environment was felt comprehensively in the strategic management systems where emphasis was put on strategy formulation and implementation based on the external environment dynamics to increase positive performance. This study therefore recommends that in order to avoid many impediments, Dynapharm Kenya should make sure that its strategies are sufficient to enable administration and management prudence and getting them advice promptly.

## TABLE OF CONTENTS

<b>Declaration</b> .....	<b>iii</b>
<b>Acknowledgments</b> .....	<b>iii</b>
<b>Dedication</b> .....	<b>iv</b>
<b>Abstract</b> .....	<b>v</b>
<b>Table of contents</b> .....	<b>vi</b>
<b>List of tables</b> .....	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the study .....	1
1.1.1 The External Environment.....	3
1.1.2. Organizational Performance .....	4
1.1.3 Network Marketing.....	5
1.1.4 Overview of Dynaplum Kenya Ltd.....	7
1.2 Statement of the problem .....	9
1.3 Objectives of the study .....	10
1.4 Value of the study .....	10
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>12</b>
2.1 Concept of Strategy .....	12
2.2 External Environment.....	15
2.3 Organizational Performance .....	18

2.4 Strategic capability .....	19
2.6 Network Marketing.....	22
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1 Introduction.....	24
3.2 Research Design.....	24
3.3 Data collection .....	24
3.4 Data Analysis .....	24
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION.....</b>	<b>24</b>
4.2 General Information.....	26
4.3.1 Strategies applied by Dynapharm driven by external forces .....	27
4.4 Influence of the external environmental factors to performance of Dynapharm Kenya Ltd .....	29
4.4.1 Communication of Objectives and the role of the managers in strategic management towards external influence .....	34
4.4.2 Effect of the external environment on the specific performance indicators.....	35
<b>CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS. 24</b>	
5.1: Introduction.....	36
5.4.1 Recommendations with policy implications.....	18
5.4.2 Recommendations for further research.....	38
<b>REFERENCES.....</b>	<b>40</b>
<b>APPENDICES.....</b>	<b>46</b>

<b>APPENDIX II: INTERVIEW GUIDE .....</b>	<b>47</b>
<b>APPENDIX III :TIME PLAN .....</b>	<b>48</b>
<b>APPENDIX IV:BUDGET .....</b>	<b>50</b>



## LIST OF TABLES

Table 4.1: Influence of the external environmental factors to performance of Dynapharm Kenya Ltd.....	30
---	----

## ABBREVIATIONS

MLM - Multi level Marketing

DPC - Dynapharm Depot Centre

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the study

The world economy is being shaped by several global, technological advancement and privatization forces among others. As a result, the consumer is highly empowered with information and has a wide range of choices. This has led to new market challenges, in that customers have grown more sophisticated, price sensitive, are short of time and have high service expectations. Kotler, (1985) as cited by (Akinyi 2008). As a result, a company's environmental performance is increasingly central to its competitiveness and survival.

Firms of all types of consumer goods, industrial products, financial institutions and entrepreneurs seeking to enter business for themselves, are seeking to meet the needs of diverse stakeholders such as, buyers, sellers, investors, community residents, and even citizens of the nation where goods and services are made or sold at the same time earn a profit. The need for firms to reach consumers who belong to tightly knit groups that are not easy to reach is important (Solomon, Marshall, & Stuart 2009). As a result different marketing concepts have been born, one of them being the Network Marketing concept.

In the past ten years, the Kenyan economy has realized a remarkable penetration and growth in the pharmaceutical industry most especially Multi Level Marketing companies (MLM) dealing in lifestyle drugs. These companies are part of the global trend called Network Marketing. For instance, companies like Dynapharm Ltd, Forever Living, GNI.D, Quest Net, Oriflame, Swissguard, Tienshi, Tasly and Greenworld. With a more liberalized economy, there are greater indications of more penetration and growth of these companies as investors scramble to tap more business opportunities in the Kenyan economy.

In fact, the MLM participation in economic development cannot be understated. Bang Magazine (2010) highlights clearly that Network marketing is the best way to improve and empower one's lifestyle to the level one wants. It is also highlighted that improvement is not just for people involved in the business but society at large

A large number of the Kenyan population is registered into one or more of these companies and it could be true that almost half of this population depends entirely on the business for survival. The development of sustainable business in these companies however could stimulate financial growth that will not only improve the livelihoods of rural Africa but also have a multiplier effect on the rest of the economy. Kenya is one of the countries known to be in the mix of these network business developments.

The network marketing industry continues to develop and flourish in Kenya, with companies dealing in a number of products. Pharmaceutical companies dealing in lifestyle drugs however, have gained prominence in the industry. Globalization and liberalization have contributed to intense dynamism in the external environment of these firms resulting to dynamic changes in market share and performance of these firms. Such a dynamic environment demands that, firms in the same industry clearly position themselves in the market so as to continually adapt their activities in order to succeed.

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2009). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000).

Aosa (1982) noted that industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changed environment. They adopt strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (1990), increased competition alone has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses. Terminologies such as

retrenchment, mergers, rightsizing and cost reduction have become a routine for survival means

### **1.1.1 The External Environment**

Organizations exist as open systems and hence they are in continuous interaction with the environment in which they operate. The environment in which the organizations operate is never static. Firms depend on the environment for the required resource and a profitable market for their goods and services. All organizations lend themselves to this environment which is highly dynamic, chaotic and turbulent that it is not possible to predict what will happen and or when it will happen. Consequently, the ever changing environment continually presents opportunities and challenges (Mintzberg, 1987).

The external environment of a firm according to Pearce II, Robinson and Mital (2010), are those factors beyond the control of the firm that influence its choice of direction and action and, ultimately its organizational structure and internal processes. These external factors can be divided into three interrelated subcategories, that is, factors in the remote environment, factors in the industry environment, and factors in the operating environment. To ensure survival and success, a firm needs to develop capabilities to manage threats and exploit emerging opportunities promptly. Success therefore calls for proactive approach to business (Pearcell and Robinson, 2009).

The external environment of a corporation according to Wheelen & Hunger (2008) is composed of both societal and task sub-environments; the societal environment including general factors that do not directly touch on the short run activities of the organization, but can and often influence its long run decisions. Economic forces which regulate the exchange of materials, money, energy and information; Technological forces which generate problem solving inventions; political legal forces that allocate power and provide constraining and protecting laws and regulations; Sociological forces that regulate values, norms and customs of society. The task environment however, is typically the industry within which the firm operates. It includes elements that directly affect a corporation and, in turn, are affected by it. Such as, governments, local

communities, suppliers, competitors, customers, creditors, employees or labor unions, special interest groups, and trade associations (Wheelen and Hunger 2008)

In reality, the external environment influences relevant to strategic decisions which in turn not only affect general performance of the company, but also, operate in a company's industry, total business community, its city, its country, and the world.

### **1.1.2. Organizational Performance**

Organizational performance is the end result of the organization's activities; it includes the actual out comes of strategic management processes. Wheelen & Hunger (2008) allege that, the practice of strategic management is justified in terms of its ability to improve an organizations performance, which is typically measured in terms of profits and return on investments.

Performance is more of a companywide measure, in form of strategic and financial outcomes, across business units, divisions, functional departments and operating units. It is also a measure of a company's efficiency or effectiveness in conducting business operations for the accounting period. Some possible measures of performance are found in the business centers of an organization such as, the revenue centre, cost centre, profit centre, and investment centre (Otiemo, 2007)

According to Wangari (2007), Performance in an organization may take many forms depending on whom and what the measurement is meant for. For instance, Wangari cites Manyuru, (2005), to have stated that, different stake holders require different performance indicators to enable them make informed decisions. As much as performance measures are mostly financial indicators, non financial indicators are also important to use, since Thompson et al (2007) as cited by Wangari, (2007) notes that using financial indicators alone overlooks what enables a company achieve these financial results, which could be, the achievement of strategic objectives. The same cites Goldsmith & clutterbuck (1984) and Saunders & Wong (1985); Hooley & Lynch (1985) to have noted that some of the examples of these non financial measures are, innovativeness and market standing respectively.

The organization therefore matches its external environment with its performance tied to its goals and strategies. For purposes of this study, concentration is put on the influence of the factors in the external environment to the company wide performance, measured qualitatively in form of relevant and strategic outcomes which will be, market share, customer satisfaction, product expansion, geographical expansion, market standing and innovativeness.

### 1.1.3 Network Marketing

Hill, Provost & Volinsky (2006) define Network-based marketing as a collection of marketing techniques that take advantage of links between consumers to increase sales. To the above three, instances of network based marketing have been called; word-of-mouth marketing, diffusion of innovation, buzz marketing and viral marketing. Awareness or adoption spreads from consumer to consumer. For example, friends or acquaintances may tell each other about a product or service, increasing awareness and possibly exercising explicit advocacy. Firms may use their websites to facilitate consumer to-consumer advocacy via product recommendations or via on-line customer feedback mechanisms. Kautz, Selman and Shah (1997), as cited by Hill, Provost, & Volinsky

Most firms in most industries are assigned an exclusive territory and therefore cannot market outside of their assigned territory. Where as in network marketing in most cases, you can market just about anywhere your company is established. The products and services you can market today cover everything from health and lifestyle products, Communication Services, Internet Access, Nutritional Products, Weight Loss Programs, Water Filtration Systems, Financial Programs, Electrical Power, Solar Power, just to name but a few (Kautz, Selman and Shah, 1997)

There are three possibly complementary, modes of network-based marketing. Hill, Provost, & Volinsky (2006), explicit advocacy; Individuals become vocal advocates for the product or service, recommending it to their friends or acquaintances. When firms give explicit incentives to consumers to spread information about a product via word of

mouth it has been called viral marketing, although that term could be used to describe any network-based marketing where the pattern of awareness or adoption spreads from consumer to consumer. Implicit advocacy; even if individuals do not speak about a product, they may advocate implicitly through their actions, especially through their own adoption of the product. Designer labeling has a long tradition of using consumers as implicit advocates. Firms commonly capitalize on influential individuals such as athletes, to advocate products simply by conspicuous adoption. More recently, firms have tried to induce the same effect by convincing particular members of smaller social groups to adopt products. The third mode of network-based marketing is for the firm to market to prior purchasers' social-network neighbors, possibly without any advocacy at all by customers. For network targeting, the firm must have some means to identify these social neighbors. Network-based marketing assumes interdependency among consumer preferences.

The strength of a network approach to marketing is that a relationship is built with the customer, allowing information to flow between the buyer and the seller. This means that the company conducting the marketing can adjust its marketing activities to fit the needs of individual or groups of customers after an interactive segmentation process. In a network approach, markets can potentially be segmented down to individual customers. Having segmented the market, a number of management tools are available to approach customers in different segments (Borg, 2009). Essential to the segmentation process is to relate to and know more about customers, including knowing about applicable psychographic and geo-demographic variables Novak and MacEvoy (1990), as cited by Borg.

MLM companies have been a frequent subject of criticism as well as the target of lawsuits. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated



compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion. (Borg, 2009)

#### 1.1.4 Overview of Dynapharm Kenya Ltd

Dynapharm Kenya is a network marketing company, using Multi-level marketing strategies in its business operations. In the Kenyan industry of Network Marketing, Dynapharm Kenya Ltd is in direct play with other network marketing companies such as, Forever Living, GNLD, Quest Net, Oriflame, Swissguard, Tienshi, Tasly, Greenworld and Bright Future, among others.

Dynapharm Kenya is a pharmaceutical firm that deals in life style herbal drugs. It was founded in 1981 as a Franchise of the Dynapharm Phil's international based in Malaysia. The Malaysian based Dynapharm International Company takes a global business orientation and as such its businesses in the world over, have the same Mission: "to innovate life through new ideas" and a goal of "being a world leading pioneer of healthcare and life style products". Its African Headquarters are in Lagos, Nigeria while Dynapharm East and Central Africa Division headquarters are in Kampala, Uganda.

Dynapharm Kenya Ltd is a Multi Level Marketing company. It was introduced to Kenya in the year 2005. After branches were opened in Nigeria and Uganda, the next branch was Dynapharm Kenya Ltd, it was born under the names; Dynapharm Kenya international, until it entered into collaborations with Dynapharm Uganda, that it changed to the current name. To date, it has expanded its activities to Tanzania, Malawi, Zambia, Zimbabwe, Burundi, Congo and now Southern Sudan. This expansion though, has not happened with the sole efforts of Dynapharm Kenya, but with also the efforts of Dynapharm Uganda.

Dynapharm deals in food supplements popularly known as lifestyle drugs in its core business and Alternative diversified products such as cosmetics and fertilizers. It also opened up a lady care centre well known as Dyna ladies in 2009, where many services ranging from a beauty spa to special trainings given to the ladies about how useful the dynapharm products can be combined and used to achieve satisfactory health values. The registered customers are well known as distributors to the company. As part of its social

responsibility, Dynapharm Kenya rewards well performing distributors with gifts such as vehicles, houses, among others annually to motivate, help them grow and stabilize into the business.

The company makes its sales through the efforts of the distributors, who engage in a net working kind of marketing system to buy and sell the company's products, as well as recruit new members to the business, who in turn do the same. The distributors are paid a commission for the sales and recruitments made, in form of bonuses. Dynapharm has been made popular most especially by the famous instant coffee mixtures as part of its products. Most of this coffee is highly demanded by the different coffee shops, restaurants and fast foods in Kenya where they are highly sold in retail form and smaller denominations, whereas some other products are bought in whole sale by pharmacies to avail to people with health needs in retail form.

Since Dynapharm Kenya started, it has been under the ownership and leadership of Ampumuza Esther as the Director Dynapharm Kenya, who has since then had a huge foothold in the internationalization of the company in the rest of Africa. This led to her earlier position in the business rising to Director, Dynapharm Africa.

Dynapharm Kenya started expanding steadily with more emphasis on Nairobi where it set up five Depots (convenience stores), also known as Dynapharm Pickup Centers (DPC's). So far there are thirty five well established operating DPC's throughout Kenya fifteen of which are manned by the main office while the remaining are investments of private distributors. For example there are DPC's opened in Mombasa, Mwan, Nakuru, Kisumu, Nanyuki, Eldoret, Kitale, among other many.

Dynapharm Kenya Ltd has had a tremendous growth since it was started in 2005, with growth doubling in form of customer base, profits and personnel levels in the first three years. The year 2007 registered the highest profit levels, which started declining steadily following the post election violence that swiped away many reliable and potential customers all over the country. Most affected were DPC's up country whose networks, financial bases and morale were highly distorted.

In a bid to increase profit margin, prices of highly moving products and membership fee were increased. To increase sales, more DPC's were opened, and regulations on credit sales made less stringent. New competing companies took advantage of this situation to manipulate the weaknesses of the company to their advantage leading to a big shift in the company's customer base that were lost to other companies. Never the less, the company has worked hard through product development and creation, in addition to market share expansion and development

## 1.2 Statement of the problem

The rate at which firms respond to the ever changing environment forms the basis of competitive advantage which enables firms to formulate responses within time and space (Pearce and Robinson, 2003). The competitive advantage is the unique and valued positions created by the firm to satisfy customers better than competitors and in a less costly way. The need to craft the correct responses by Dynapharm Kenya has arisen due to increased competition in the network its industry of pharmaceutical lifestyle health products. Notable here is the entry of forever Living, Oriflamme, quest Net, Green world, among others, all of which are dealing with direct substitutes. This may lead to declining market share of the firm leading to reduced sales.

Given the complex environment, there is need for extensive investment in Research and development (R&D), so as to develop strong product innovation capabilities. This would require the use of expensive and highly professionalized equipment and personnel. In addition, there is need to invest in social responsible operations to improve the company's image in the eyes of the public, among many other needs. On the other hand, an industry that has passed through the rapid growth stage and is looking at single digit percentages increases in buyer demand is likely to be experiencing a competitive shake-out and a firm in such an industry needs much stronger strategic emphasis on cost reduction and customer service.

While a few studies have been undertaken on the challenges of network marketing by Akinvi (2008), Golden Neolife Diamite international was the context of the study, not Dynapharm Kenya. Whereas other studies have tackled response strategies to external

environment, no research has dealt with the influence of the external environment to the performance of Dynapharm Kenya Ltd. A study by Magovi (2007) for example, has highlighted the response strategies by firms in the cement industry in Kenya, while life style drugs and the Net work marketing fall in a different industry from the cement industry. At least, Magovi has tackled the external environment that exists around all other organizations of East Africa. Magovi's research, has not, however, captured the influence of this environment to the performance, and more narrowly to Dynapharm Kenya. This study therefore seeks to determine the influence of the external environment to the performance of Dynapharm Kenya Ltd. It was guided by the following study questions; (i) what's the nature of the external environment of Dynapharm Kenya Ltd? (ii) What's the influence of the external environment to the performance of Dynapharm Kenya Ltd?

### **1.3 Objectives of the study**

- (i) To establish the dynamics in the external environment of Dynapharm Kenya.
- (ii) To determine the influence of external environment to the performance of Dynapharm Kenya Ltd.

### **1.4 Value of the study**

The findings of this study will add on to the body of knowledge and will also be a basis for further research. Players in this industry will also be able to understand the strategic issues they need to address to foster good performance

For Potential Investors, the study findings will help them understand the nature of the industry and therefore, make decisions on investment in the industry. The findings of the research project report will also be crucial to the investors such as shareholders in making decisions on additional investments in Dynapharm Kenya Ltd.

The research finding shall be of great help to competitors whose eyes shall be open on the current strategies being applied Dynapharm Kenya against environmental changes. The

research will provide competitor bench marking and increased competition to the advantage of the consumer.

This study will assist management consultants who endeavor to provide management assistance to networking companies in health and lifestyle industries in Kenya, in the formulation and implementation of strategies.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Concept of Strategy

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The two generic strategies are as follows: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency). Porter simplifies the scheme to the three best strategies: cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

The four possible corporate strategies are: market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, he points out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit, (Ansoff, 1980).

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Henry, 1978).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel & Prahalad (1989) view organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion to the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Buzzell & Gale, 1989).

Hamel and Prahalad (1989) argue that a critical ingredient in the strategies of outstandingly successful companies is what they term "strategic intent" — an obsession with achieving leadership within the field of endeavor. Strategy process in facilitating communication and coordination must recognize the importance of intuition, tacit knowledge, and learning-by-doing in complementing more "scientific" analysis. However Unlike mathematics, chemistry, or even economics, strategic management lacks an agreed-upon, internally consistent, empirically validated body of theory. Though it employs theory and theoretical concepts, these are drawn mainly from economics, psychology, ecology and sociology— principally on an ad hoc basis (Buzzell & Gale, 1987)

A strategy is a pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competences and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents (Mintzberg & Quinn, 1991)

Strategy is about getting from the status quo, to a place where it is worthwhile being. It is also about getting there through competitive advantage with least difficulty and in least time (Grundy, 1995). Grundy quotes Mintzberg to have differentiated strategy as planned, where the route is laid in great detail and over a lengthy period of time. Entrepreneurial strategy is where the strategy's main target is specified, but where the route is left very flexible and is very responsive to new opportunities. Ideological strategy however is that, which is pushed outwardly from a central and firmly held idea and set of values, while umbrella strategy is that, that sets out parameters that guide strategic decisions and implementation. On the other hand, process strategy, sets down the rules of engagement for evolving and implementing strategy, but does not dictate the outcomes or decisions, whereas, imposed strategy, is that which is introduced from the outside, and where there is little discretion over its content and process.

Strategy can be seen as a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by the environment. As multidimensional concept, strategy can be a means of establishing the organizational purpose in terms of its long term objectives, action programs, and resource allocation priorities, strategy can be seen as a competitive domain of a firm, it can be a response to external opportunities and threats and internal strengths and weaknesses, in order to achieve a sustainable competitive advantage. Strategy can be a coherent, unifying, and integrative pattern of decisions, it can also be a definition of the economic and non economic contribution the firm intends to make to its stakeholders, an expression of strategic intent: stretching the organization, as a means to develop the core competences of the organization, and as a



means of investing in tangible and intangible resources to develop the capabilities that assure a sustainable advantage (Hax & Majluf, 1996)

Wambua (2008) quotes Schendel and Hofer (1979), who contended that Organizations respond to turbulence in the environment by formulating new strategies, that provide directional quest to the organization that permit it to achieve its objectives while responding to opportunities and threats in the environment. Hax and Majluf (1996) add that, strategy is needed in order for organizations to obtain a viable match between their external environment and their internal capabilities. That the role of strategy is not viewed as just passively responding to the opportunities and threats presented by the external environment, but as continuously and actively adapting the organization to meet the demands of a changing environment.

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations Porter (1980) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

Porter (1980) puts an emphasis on the importance of internal capability, where by he points out that companies must be flexible to respond rapidly to competitive and market changes. A few significant competences have to be nurtured in the race to stay ahead of the competition.

## **2.2 External Environment**

Organizations have a challenge of dealing with the environment's dynamism and uncertainties, in order to be successful. Strategically, managers have to be aware and alert on how changes in the competitive environment are unfolding. The environment of

organization is categorized into both internal and external. The external environment is classified into the macro-environment and the industry.

**The macro -environment:** this consists of broad environmental factors, that impact to a greater or lesser extent on almost all organizations (Johnson & Scholes, 2002). The factors in this environment look at the way in which future trends in the political, economic, social, technological, competition and legal environment might impinge on organization. The business environment of the firm consists of all external influences that impact a firm's decisions and performance. Continuous scanning of the whole range of external influence is desirable, though it is unlikely to be cost effective and may create information overload

Rowe, et al (1994), concluded that, the political environment consists of factors related to the use of, or allocation of power among people, including dealings with the local and foreign governments, whereas the economic environment, includes those factors, related to the flow of money, goods and services, information and energy. On the other hand, social trends and demographics, include factors that affect the way people live, including what they value, and technological environments include factors related to the development of machines, tools, processes, materials, other equipment, plus know-how.

**The industry environment;** economic theory according to Johnson, Scholes and Whittington (2008), is defined as a group of firms producing the same principle product, or more broadly, a group of firms producing products that are close substitutes for each other. To the three, it is considered important for managers to understand the competitive forces in their industry or sector, since these will determine the attractiveness of that industry and the likely success or failure of particular organizations within it. Industries are commonly divided into more than one customer segment, and firms may compete by specializing in serving the needs of one segment alone. An industry thus, is composed of groups of firms, called "strategic groups," each of which has a relatively distinct approach to competition. In some industries, these groups are quite different, almost composing separate industries themselves. In other industries, the groups overlap as numerous firms compete across customer segments. In either case, building an industry

map of strategic groups can provide important information on firm's response strategies and how they influence performance (Walker, 2004).

Walker (2004) notes that since the strategic groups are relatively distinct in terms of their value and cost drivers, they are likely to be affected differently by the power of buyers and suppliers, substitutes and potential entry. Because of this variation among groups in profit potential, firms within a more profitable group are likely to defend their shared strategic position against encroachment from other firms in the industry, much as firms within the industry overall raise barriers to keep outside firms from entering. Without strong barriers to mobility across groups, more profitable groups would slowly lose their advantage as other firms in the industry enter them.

The business environment is very dynamic and keeps on presenting both opportunities and challenges to the organizations that operate in it. Factors that influence the business environment include the government, social-economic dynamics and globalization; Organizations must survive by analyzing the environmental dynamics, identify the opportunities and respond in a way that seizes these opportunities to ensure survival and growth. A new age paradigm is emerging in the business environment where governments are expected to do less; that they should reduce their responsibilities, privatize public services where practicable and reform their own operations (Self, 1993)

What has been driving this change is the question as to why some nations are seen to be more prosperous than others (Porter, 1990). This question is being asked by almost all nations. According to Porter a better question would be "Why does a nation become the home base for so many of an industry's world leaders"? While struggling to answer the question governments try to encourage investments in their countries to meet high productivity level that would guarantee improved living standards. It is the decisive characteristics of a nation that would allow its firms to create and sustain competitive advantage in a particular field.

### 2.3 Organizational Performance

The performance of an organization is affected by the degree of understanding and analysis of its external environment before or strategy formulation or even throughout the strategic management process. General trends and events in the external environment that favorably match the company's capability and resources to exploit the opportunities and avoid the threats, able to set a company apart from its rivals and yield a competitive advantage as well as give it a market standing, are the company's most reliable ticket for earning above average in performance. Without this, a company risks being out competed by stronger rivals and collapsing over different events that it cannot react upon or even proactive on.

Performance is normally measured using standards which are usually detailed expressions of strategic objectives. They are also the measure of acceptable performance results. Wangari (2007) notes that, organizational performance measures depend on the organization and the objectives to be achieved. She cites Hunger and Wheelen (1995) who noted that, these objectives are normally established in the strategy formulation stage of the strategy management process, and they could include, profitability, market share and cost reduction, among others. Nevertheless, there are two distinct performance yardsticks; i.e; those relating to financial and strategic performance. Those related to strategic performance are the outcomes that indicate if a company is strengthening its market standing, competitive vitality, and future business prospective.

Most studies on organizational performance use a variety of both financial and non financial success measures. Financial measures such as profit, sales turnover, return on investment and inventory turn over are used in this method, whereas, non financial measures may include, innovativeness and market standing. The most commonly used measures of corporate performance, Wheelem and Hunger, (2008) are, Rate of Return on Investment (ROI), Earnings per Share (EPS). And Rate of Return on Equity (ROE).

ROI is the result of dividing net income before tax by the total assets. EPS is equal to the earnings available to common stock holders divided by the weighted average number of shares of common stock outstanding. ROE shows the relationship of net income to

average stock holders' equity. Sales turnover is the sales revenue of the company during the financial period under review. A higher or growing turnover implies increased volume of sales due to quantities sold or increased prices. Higher volume of sales most likely implies increased demand for the company's products or services, which reflects growth of the company. Data on turnover has been used by many companies in assessing corporate performance.

Both the literature and some of the studies carried out do not reveal a conclusive relationship between the external environment and performance, and this therefore necessitates the need for further research.

#### **2.4 Strategic capability**

Overall strategic capability, can be defined as the resources and competences of an organization needed for it to survive and prosper. Johnson, Scholes and Whittington (2008), Strategic Capability, as the ability to perform at the level required to survive and prosper, and that it is underpinned by the resources and competences of the organization. Typically, an organization's resources can be, physical, such as machines, buildings or the production capacity of the organization. The nature of these resources such as the age, condition, capacity and location of each resource will determine the usefulness of such resources. There are also financial resources such as capital, cash, debtors and creditors and suppliers of money (shareholders, farmers, etc.). The human resources include skills and knowledge of employees and other people in the organization's networks. Such resources are certainly important, but what an organization does or how it employs and deploys these resources matters at least as much as what resources it has. The term competence is used to mean, the skills and abilities by which resources are deployed effectively through an organization's activities and processes. Threshold resources and competences are those resources and activities needed to meet customers' minimum requirements and therefore to continue to exist. On the other hand, unique resources and core competences are those resources and activities that underpin competitive advantage and are difficult for competitors to imitate or obtain (Johnson, Scholes and Whittington, (2008)

As an industry develops in the growth stage, firms enter and customers choose among the products offered, favoring those with higher value-price differentials. Walker (2004) in his study about dynamic capabilities and growth of the firm, notes that, as firms observe buying behavior, they adjust their market positions to increase demand for their products, shifting towards more successful combinations of value and cost and reducing the heterogeneity in the industry. At the same time, new firms enter with innovations, some of which increase the level of competition while others fall by the wayside. With time, the rate of imitation and innovation by both incumbent and entering firms determine how varied market positions are in the industry.

Through both innovation and imitation, firms improve their market positions over time through a growth process called, the dynamic growth cycle. As the industry expands, firms establish a pattern of investing in both product and process innovations to increase value and lower costs. In the long run, these innovations improve productivity and thereby raise the firms' margins. Higher margins increase profitability which provides cash for capacity expansion. In turn, the size of the firm increases. Greater size means more resources for innovation. More productive firms are able to attract buyers through higher value at a given price or a lower price at a given value, forcing weaker firms out of the market and increasing the exit rate. Potential entrants observe the steadily improving productivity of incumbents, and are deterred from competing in the industry, this way, strategic capability is enhanced. As the external environment changes, organizations find themselves in unfamiliar environment and have to respond by integrating change and internalizing the organization's ability to adapt to the new environment for survival and growth, notes (Wambua 2008)

Strategic change is a proactive, structural approach to address the people and organizational risks inherent in any change effort that will optimize the realization of business benefits and sustain long term performance, Worley (1996) as quoted by (Amenya, 2008). Amenity continues to say that strategic changes are deliberate actions undertaken today to shape and prepare organizations for addressing the challenges and

demands facing the organizations. It also enables the organization to take advantage of important opportunities and cope up with consequential environmental threats.

Factors such as change management are becoming a highly sought-after managerial competence. It has become a way of life, and organizations are experiencing many types of change, this is because of the following reasons. As industries consolidate, the numbers of mergers and acquisitions increase, the pressures on organizations to compete in a more global arena are leading to different competitive pressures and strategic alliances. rapid technological change is forcing organizations to adopt new technologies and change the way they work and interface with their suppliers and customers, there has been a series of management fads such as culture change, Total Quality Management and Business Process Re-engineering. In addition, many organizations need to change just to remain competitive, (Bulogun and Hailey, 2008)

In his study, Burnes (2004) found that potential exists for managers to exercise a wide degree of choice with regard to almost all aspects of their business, whether they are products, structures, personnel policies or culture. This potential freedom however, is constrained by societal, environmental, industry -specific and organizational constraints. On the other hand, he argues that it is not only the relationships within the organizations that are changing, but also the relationships between organizations. There is a lot of evidence showing that outsourcing of activities previously done in house is increasingly taking over from vertical integration. The greater emphasis on outsourcing has led companies to review their relationships with both suppliers and customers in order to develop closer and more effective links. These changes are taking place due to the growing climate of opinion that customers, suppliers and even rivals working cooperatively have considerable advantages, and the aim is to secure the best possible commercial advantages.

## 2.6 Network Marketing

The simplest explanation of network marketing is that it is a method of marketing that utilizes independent representatives to reach potential customers that a company otherwise would not reach with traditional online or offline marketing methods. In order to accomplish this, network marketing companies and their associates recruit individuals i.e. "their sales force," just like other companies and franchises, have done for years. Rarely are there any advertisements from the people who are either involved with direct selling, or in the network marketing industry.

Network Marketing can also be referred to as Multi-level Marketing (MLM). It is a marketing strategy, in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a down line of distributors and a hierarchy of multiple levels of compensation. Most commonly, the salespeople are expected to sell products directly to consumers by means of relationship referrals and word of mouth marketing. Some people equate MLM with direct selling, although MLM is only one type of direct selling. In contrast MLM is single-level marketing; in single-level marketing, the salesperson is rewarded for selling the product directly to the consumer. The term "multi-level marketing" emphasizes the compensation plan more. Other terms that are sometimes used to describe multi-level marketing include "word-of-mouth marketing", "interactive distribution", and "relationship marketing". Critics have argued that the use of different terms and "buzzwords" is an effort to distinguish multi-level marketing from illegal Ponzi schemes, chain letters, and consumer fraud scams. (Stuart, 2008)

In Network marketing, also known as Multi-level Marketing, a master distributor recruits other people to become distributors. The master distributor sells the company's products to the people she entices to join, and then she receives commission on all the merchandise sold by the people she recruits. One of the advantages of multi level marketing is that, it allows firms to reach consumers who belong to tightly knit groups that are not so easy to reach (Solomon, Marshall, & Stuart 2009).



Network-based marketing seeks to increase brand recognition and profit by taking advantage of a social network among consumers (Hill, Provost, & Volinsky, 2006). According to Borg (2009), Networks can lead to positive spillovers, when participants work on innovative solutions to challenges they have in common. In dynamic market-related networks, common standards and compatibility can evolve between partners and customers. The creation of innovation and new know-how are examples of positive spillover from network relationships. Barriers between disciplines can be reduced and the integration of technologies is common in technology-intensive markets, and know-how bases can spread widely across firms, industries, and users.

Independent, unsalaried salespeople of multi-level marketing, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the company that produces the products or provides the services they sell. They are awarded a commission based upon the volume of product sold through their own sales efforts as well as that of their down line organization. Independent distributors develop their organizations by either building an active customer base, who buy direct from the company, or by recruiting a down line of independent distributors who also build a customer base, thereby expanding the overall organization. Additionally, distributors can also earn a profit by retailing products they purchased from the company at wholesale price.

Some companies, many of them members of the Direct Selling Association, require their distributors to make minimum purchases ("pay to play") in order to be eligible for commissions and advancement in the business. There is a warning that such requirements which compel sellers to be "committed to a minimum sales volume per month" are a hallmark of potential scams. Frequently such "sales" are not real sales, but rather the "seller" purchasing the minimum amount for them in order to fulfill the requirement for compensation. It is noted that such minimum sales requirement may be used to "disguise these payments to appear as if they are based on the sale of goods or services. (Kotler, 1997)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter details how the proposed study was carried out. It covers the design to be adopted to conduct the study, how data was collected and eventual analysis of the data in order to generate research findings for reporting.

### **3.2 Research Design**

This research was conducted through a case study. A case study was chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of Dynapharm Kenya Ltd. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear (Mugenda and Mugenda 2003).

### **3.3 Data collection**

The study made use of both primary and secondary data. Secondary data was obtained from various company brochures, catalogues, and statements of accounts. Primary data was obtained from managers at the Dynapharm Kenya Ltd using an interview guide. The interview guide was used to solicit data on the changes in the company's environment and the responses thereto. The respondents of the study were three (3) managers drawn from three (3) departments; one from each department was interviewed. The data was collected from the senior manager, marketing manager, and the Accounts and Finance manager. The chosen respondents hold key departmental positions and therefore they are the ones who are spear heading the company while changes continue. most fundamental changes have taken place for the last five years.

### **3.4 Data Analysis**

The data collected which is qualitative in nature, was analyzed using conceptual content analysis, content analysis is defined by Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends.

According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study existing information in order to determine factors that explain a specific phenomenon. To conduct the conceptual content analysis, the data collected was coded on the theme basis of dynamics in the external environment of Dynapharm Kenya, the influence of external environment to performance, strategic responses, strategies adopted to respond to the external environment, various organizational responses, and competition in the industry.

## **CHAPTER FOUR:**

### **DATA ANALYSIS, AND INTEPRETATION**

#### **4.1 Introduction**

This chapter presents the results of the analysis of data collected through interviews of the three (3) managers drawn from various departments. Three respondents in managerial positions, in three departments, one in each were interviewed. These departments were the, marketing department, Accounting and Finance department, and Administration. The respondents were the, Marketing manager, Accounting and Finance manager and the general manager. The data was analyzed using content analysis based on meanings and implications emanating from respondents information and documented data. Specifically, it starts with the analysis of the general information of the respondent and their organization then proceeds to interpret results on the dynamics in the external environment of Dynapharm Kenya and determining the influence of external environment to the performance of Dynapharm, measures and solution to impediments.

#### **4.2 General Information**

This section represents the general information about the Dynapharm Kenya. This includes the employee's demography and number of years with the organization, communications of objectives, whether or not the Dynapharm management embraces counter Dynapharm strategy management measures as one of their strategies based on the influence of external environment on the performance of their network marketing in Kenya. The researcher found out from the study that the firm is headed by one (1) General Manager, marketing and lastly accounting and finance manager. The researcher established that the general manager had worked for six years for the company to date, and two years as the manager and was in better position to give an appropriate data for the success of the study. Whereas the marketing manager had worked for 5 years both with the company and in the marketing managerial position, the Accounting and Finance manager had worked for five years with the company and three years in the managerial position of Accounting and Finance.

### **4.3 Dynamics in the external environment of Dynapharm Kenya**

The researcher established that Dynapharm's external environment was described as dynamic by all respondents characterized by changes in government laws and regulations, interest rates, dollar fluctuations, price changes by firms in the entire industry driven by the economy, changes in tastes and preferences with customers' increasing need for low priced and high value products, financial support of customers, increased competition brought by increased entry into the industry by other firms, technological changes in the industry, seasonal and weather changes. To the Accounting and Finance manager, changes in the environment were reflected in the monthly changes in sales.

The researcher indeed examined that the company's external environment involved dynamic rules and regulations from the pharmacy and poisons board for example the separation of agricultural products from food and nutritional products. There has been a realization of new entrants and exits in the market for example Bright Future Company entered the industry in 2010, whereas VIMA and LINK companies have collapsed and exited. Demand has also changed towards low priced and high value products in addition to tastes and preferences. It has also been realized that weather changes affect the company's sales both positively and negatively. Customer shifts have also been realized; these shifts however, are not permanent. The economy has deteriorated in the past three years, characterized by increased interest rates, inflation and dollar fluctuations. Most changes have been realized in the years 2010 and 2011

#### **4.3.1 Strategies applied by Dynapharm driven by external forces.**

The researcher found that, most of the strategies are formulated and implemented on the basis of customers' needs and market forces than any other need from the external environment. Some strategies are put in place to motivate customers; these are marketing strategies that result into extension of credit sales, sales promotions, modification of the marketing plan. It was also found that, involvement of all company players in the

strategic management process is taken very crucial so that strategies arrived at, and implemented are tailored to the needs of the customers to create consumer satisfaction.

In making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification, a key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the firm should be in. This involves deciding to increase or decrease the amount and breadth of diversification. It involves closing out some strategies (lines of business), adding others, and/or changing emphasis among strategies.

The firm managers initiated actions to boost the combined performance of the businesses the firm has diversified into. This involved vigorously pursuing of most promising rapid-growth strategies, businesses health, initiating turnaround efforts in weak-performing strategies with promise, and dropping positioning strategies that are no longer attractive or don't fit into the corporation's overall plans. They also involved supplying financial, managerial, and other resources, or acquiring and/or merging other companies with an existing core missions in pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers. Moreover, the firm managers also are in forefront in establishing investment priorities and moving more corporate resources into the most attractive strategies.

The researcher found out that the company has diversified into a new market and with a new agricultural product called the "DI Grow" fertilizer. This kind of product targets the farmers in Kenya, which market has not been tackled by any MLM company in the Network Marketing industry. Product and knowledge promotion of the DI Grow product is being carried out. According to the marketing manager, this is one of the well performing products of the company, being a new and effective product. In addition, the product has got little competition in the industry compared to others, since it is said to have no direct substitutes in the MLM industry for now, other than the agricultural fertilizers from industries outside the MLM industry. "This has given Dynapharm company a competitive advantage", states the general manager.

Moreover, new products have been introduced in the market, and among them are the “baby products” that were not formerly dealt in. This has opened up new arenas in the new market segment of babies. As much as this has been seen as a Product Development strategy, it is also seen as a Market Development strategy, since some of the adult products have been modified to suite babies. Market expansion however, has been realized by opening up more DPCs up country which are operating on a daily basis and giving convenience of proximity to customers.

The researcher found out that Dynapharm compensates its distributors in form of cash bonuses, for their work towards recruiting and retailing the company's products. In the year 2011, the compensation has been changed from the shilling currency to the dollar currency. This was done as a counter strategy to other MLM companies which are compensating their customers in international currencies other than the shilling. This has also been done to cater for customer preferences and so derive customer satisfaction.

According to the managers, Dynapharm prices are one of the most favorable compared to other MLM companies in the industries. At the same time, the researcher established that prices had been increasing since Dynapharm Company started, without ever decreasing. But it is argued by management that regardless the price increases, Dynapharm prices remain favorable considering the rate and value derived from their products. The reason for increasing prices is given as due to increases in cost of production and dollar rates. The favorable prices are put in place to increase geographical expansion and market standing of the organization.

#### **4.4 Influence of the external environmental factors to performance of Dynapharm Kenya Ltd**

The researcher considered, competition in the industry, the market, technology, economic forces, political/ legal factors, customer needs and preferences, substitute products, and weather changes as the appropriate environmental factors that would have an influence on the activities of Dynapharm, and the researcher found the influence of these factors as discussed below.

**Table 4.1: Influence of the external environmental factors to Dynapharm Kenya Ltd**

<b>Factors</b>	<b>Frequency (n)</b>	<b>Percentage (%)</b>
Competition	3	83%
Technology	3	75%
The Market	2	66%
Economic Forces	3	66%
Legal/ Regulatory factors	1	50%
Substitute Products	1	50%
Weather Changes	3	41%
Management style	1	16%
	N=3	

As evidenced in the table above, majority of respondents identified competition (83.33%) and rapid change in Technology (75.00%) as the factors that highly pond influence of external environment on the performance of network marketing specifically Dynapharm kenya. The respondents further felt that the factors that moderately pond challenges to the choice of strategy the firm gets to emphasize to counter external influence on performance are: competition, the market, the technology, the economic forces, legal / Regulatory factors, Substitute products and change of weather.



The researcher also realized that the kind of industry Dynapharm is operating in has got a trait of perfect flow of information between market players especially the customers. Distributors know which companies are new and old in the industry, those that are doing well or had financially and in any other way, which technology is being practiced by which company, which company has got the best marketing plan., among others. It was therefore realized that this free flow of information, gives consumers perfect knowledge of the industry, and so power over the firms activities in the industry, Dynapharm being one of them.

It was discovered that the technology environment is very competitive, with a lot of technological shifts between the different MLM companies in the industry. This affects Dynapharm company as it always has to counter-innovate to improve technologies to beat the competitors for a competitive advantage for example it was testified that Tarsley company introduced the hand acupuncture, when this happened, Dynapharm brought in a more improved technology of the same acupuncture. Green World Company introduced a reflexology machine which provoked Dynapharm Company to counter-introduce the radiology machine. Dynapharm also has been forced to use internet in its operations to keep up-to-date and innovative at the same time keeping up the pace of its activities with other companies in the industry. Technology has also helped Dynapharm company in its communication endeavors to its distributors through the introduction of intranets and extranets in addition to the bulk message programmes. It was found out that Dynapharm Company finds these technologies helpful. Internet has brought in speed in the encoding section; calculation of distributor compensation has also been enhanced since sales from different DPC's can be captured all at once.

According to the management, the researcher found out that the economic forces haven't been favorable most of the years, characterized with poor economic conditions which affect the purchasing powers of customers leading to low sales and the resulting profit. The poor economic conditions are also responsible for increase in prices of products which breeds customer dissatisfaction. The dollar fluctuations also affect the company's sales and profits since the rate of uncertainty is high. Besides when the dollar rises,

The study found that competition has got both positive and negative influence on Dynapharm Kenya performance. It was found that it is positive in a way that it increases strategic activity in the organization, and helps the company players be more innovative. For example it was observed that, because of competition, new products were developed, and the company was also able to diversify its activities, one thing that has created a competitive advantage, and helped spread the risk on the organization's sales and profits. In addition it was found that competition increases social linkages between distributors of the company. It is during such times that social activities such as football games are played DPCs compete with each other. This has been found to yield unity and togetherness between distributors towards the organizations goals. During these games, the researcher found that business is boosted as spectators are attracted of which some are recruited; gifts are also awarded to the best performers, one thing that is found to motivate distributors.

On the other hand, the researcher found that competition impacted negatively on Dynapharm co. such that it brings about high consumer shifts and turnover from Dynapharm to other firms, especially new firms in the industry. However it was found that these shifts to other firms are not permanent, in that, 90% of those that shift come back to Dynapharm with in a short time. During the consumer shifts due to competition, it was found that sales and registrations decrease leading to decreased profits.

The study found that Dynapharm depends highly on its distributors for market. It was also found that consumers consist of a lot of diversities in demographics, needs, and preferences, where these needs have not been satisfied or catered for; it has been found that increased consumer shifts are realized. It was also realized that the kind of market Dynapharm has, spells out the need to provide products tailored to the needs and preferences of consumers, and because of the dynamic needs of consumers, dynapharm has registered losses in form of expiring products which come about as a result of the organization's failure interpret and balance the dynamic changes in customer preferences and rate of production.

provide profit margins reduce since the company's purchases are made in the dollar currency.

It was found out that Dynapharm Company needs various certifications and licenses for different kinds of products such as the pharmacy and poisons board certificates. Apart from requiring vast amounts of money to attain these certificates, there is a lot of bureaucracy involved especially since Dynapharm Company is a non-resident in Kenya. This delays products to get into the market where consumers are demanding for them increasing the degree of unreliability to the company.

In addition, the company pays high taxes compared to other resident companies in the industry. This reduces the profit margins of the company. Regulatory laws from the pharmacy and poisons board also required the diversified fertilizer to be registered as a separate holding since food and nutrition products do not mix with fertilizers. This involved a big expense which reduces the income of the company. At the same time it delayed the product to get into the market thus rendering investments made earlier idle. The law also doesn't allow MIM companies to advertise and this affects the product knowledge in the market. Distributors are also not supposed to hawk the products which limit the sales of the distributors and the company at large.

The researcher found out that the company's products have got various direct substitutes from different companies in the industry. These are a major threat especially when the 'substitute present' products are out of stock. It was found out that the presence of substitutes also affects the way the products are branded by the company to avoid any resemblance with the direct substitutes. On the other hand, it was found that Dynapharm Company has got a variety of products and only a few have got direct substitutes, and because of the favorable prices of the company's products, the threat is felt at a minor level. Information from the company management indicated that rainy seasons negatively affect sales of products except fertilizers. This is because promotions and trainings are poorly attended during this season. However, the rainy season realize high sales for fertilizers since these are known as planting periods. On the other hand, cold seasons realize high sales for coffee products.

#### 4.4.1 Communication of Objectives and the role of the managers in strategic management towards external influence

The interview guide sought response on the role of the managers in strategies implementation process. From the responses received from the interviewees, it was clear that the corporate objectives were entrenched in the Dynapharm strategy management of the organization where each departmental managers and heads had their objectives that had to be met so as to counter the influence of external environment to the performance of Dynapharm, measures and solution to impediments

Moreover, the study inquired on the role of Dynapharm managerial staff in overseeing influence of external environment on the performance of their network marketing in Kenya. The respondents cited that it involved the implementation of organization strategy through the application of efficient management systems to obtain the desired results. Particularly, strategy includes designing the organization's structure, allocating resources, developing information and decision process, and managing human resources, including such areas as the reward system, approaches to leadership technology competition and staffing.

All the departmental objectives were congruent with the overall Dynapharm wide objectives. All managers are actively involved in strategy implementation. The marketing and general managers however, are also involved in the strategic formulation role. According to the marketing manager, there is no specific process followed in the formulation of strategies as the company formulates strategies on contingency. Different strategies are formulated for different DPCs. The marketing manager's role is felt both at the corporate and operation levels

The staff members are also constantly reminded of their objectives during meetings carried out between managers and other staff members to review their performance during and over a certain specific period of time. The study also indicates that there is awareness and involvement as the counter strategy to influence of external environment on the performance of their network marketing process, measures to strategy was being embraced by each of the respondents. The study established that all the managerial staffs

were involved in formulation and implementation of the Dynapham strategy to oversee the influence of external environment on the performance of the firm.

#### 4.4.2 Effect of the external environment on the specific performance indicators

It was found out that due to innovative technologies, quality products, favorable prices for the consumers, customer satisfaction is positively affected. On the other hand dissatisfaction is found negatively affected due to poorly qualified personnel and poor marketing plan in addition to prices that never go any lower. The researcher found that the external environment induced the development of new products such as baby and agricultural products to spread any possible risk brought in by competition and to attain a competitive advantage. The marketing manager adds that a new product is introduced every six months whereas others are modified to fit new needs and preferences of customers. The researcher found out that due to the high demand of the company's products countrywide and growth in consumer base, many branches of DPC's have been opened up in different parts of the country especially upcountry. In the last three years, fifteen DPC's have been established. The criticism here is that DPC's are only established in town areas leaving remotes areas uncatered for.

According to the managers, the company's market standing is positive since direct substitutes are not a major threat to the company's products. The DPC's countrywide are also well established and operating well. However due to competition, and a continuous search for wealth and health, it is hard to maintain customers as there is a high degree of consumer shifts from one MLM company to another not forgetting the threat of new entrants. The external environment, especially competition has increased the rate of innovativeness such as modification of the compensation, marketing plan and technology among other. On the other hand it is believed that innovations have realized at a low pace that is why there is a high rate of consumer shifts that normally follow the direction of innovation advancements in companies. Due to poor personnel recruitment criteria, it has been found out that there is a high degree of job rotation and scarce knowledge in the jobs personnel are placed which kills innovation.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1: Introduction

This chapter gives a summary of the findings given in chapter four on the basis of the two objectives of the study, gives a conclusion on the summary and gives recommendations both for policy implications and further research.

#### 5.2 Summary of Results

The first objective of the study was to establish the dynamics in the external environment of Dynapharm Kenya. In regard to this objective, Dynapharm's external environment was confirmed as dynamic by all respondents characterized by changes in government laws and regulations, interest rates, dollar fluctuations, price changes by firms in the entire industry driven by the economy, changes in tastes and preferences with customers' increasing need for low priced and high value products, financial support of customers, increased competition brought by increased entry into the industry by other firms, technological changes in the industry, seasonal and weather changes. The researcher found that the dynamics in the external environment pose different challenges that strategies have got to be put in place in response to the external environment dynamics. Most of the strategies are formulated and implemented on the basis of customers' needs and market forces than any other need from the external environment. Some of the response strategies Dynapharm Kenya has put in place are, Diversification, Product Development, Market Development and Expansion, Dollar Compensation, and price modifications. To Dynapharm Kenya, these strategies have helped counter respond to the changes in the external environment as well as identify other hidden dynamics in the environment that are not easily identified.

The second objective on the other hand was, to determine the influence of external environment to the performance of Dynapharm Kenya Ltd. As far as this objective is concerned, factors such as; competition in the industry, the market, technology, economic forces, political/ legal factors, customer needs and preferences, substitute products, and

weather changes were considered as the appropriate environmental factors that would have an influence on the activities of Dynapharm and so its performance. It was found that these factors affect the company's performance both positively and negatively in a way that their presence fosters increases in innovation, strategic activity, social linkages of both customers and company personnel, technological competition in the industry which increases quality of products given to their customers. On the other hand, the presence of these factors in the external environment pose challenges such as, continuous shifts in customers in the industry, personnel turn over, losses in form of expiry of products, high taxes and low sales and so profit. All the departmental objectives were congruent with the overall Dynapharm wide objectives. As a result an efficient strategic management system was needed to formulate good strategies and implement them in the best ways possible to increase positive influences from external factors. All managers were found to be actively involved in strategy implementation. The marketing and general managers however, are also involved in the strategic formulation role. According to the marketing manager, there is no specific process followed in the formulation of strategies as the company formulates strategies on contingency. Different strategies are formulated for different DPC's.

### 5.3 Conclusion

In reality as quoted by Mintzberg (1987), organizations exist as open systems and hence they are in continuous interaction with the environment in which they operate. The environment in which the organizations operate is never static. Firms depend on the environment for the required resources and a profitable market for their goods and services. All organizations lend themselves to this environment which is highly dynamic, chaotic and turbulent that it is not possible to predict what will happen and or when it will happen. Consequently, the ever changing environment continually presents opportunities and challenges to organizations as the study has found.

In addition, according to Pearce II, Robinson and Mital (2010), The external environment of a firm refers to those factors beyond the control of the firm that influence its choice of direction and action and, ultimately its organizational structure and internal processes. To ensure survival and success, a firm needs to develop capabilities to manage threats and

exploit emerging opportunities promptly. Success therefore calls for proactive approach to business

In reality, the external environment influences relevant to strategic decisions which in turn not only affect general performance of the company, but also, operate in a company's industry, total business community, its city, its country, and the world. In order to be successful strategically, managers have to be aware and alert on how changes in the competitive environment are unfolding. This study therefore has been found to be consistent to other studies about how the external environment influences activities of organizations, however it still has a lot to contribute to the pool of knowledge since it tuckles dynapharm company and how its performance in particular is influenced by external environmental factors.

#### **5.4 Recommendations**

The recommendations here are given with policy implications and for further research.

##### **5.4.1 Recommendations with policy implications**

The study found out that, effective management systems are very important for firms to formulate and implement effective response strategies to counter threats and exploit opportunities in the external environment. It is therefore recommended that, in order for firms to be able to maintain good performance in the face of a dynamic external environment, effective implementation of its strategies is of major importance. There is need to have an organized organizational structure, improved information systems, better leadership styles, timely assignment of key managers, effective budgeting and offer rewards, and control systems.

##### **5.4.2 Recommendations for further research**

The study has tuckled the influence of external environment on the performance of network marketing firms specifically private firms in Kenya. Dynapharm Kenya in particular. It is therefore recommended that other studies on Network Marketing be done in nonprivate firms especially since the concept has gained acceptance in government organizations which are also incorporating it as a key management strategy though at a



sluggish pace. Given that this study only covered influence of external environment on the performance of network marketing firms in Kenya collection, similar studies can also be done in other geographical locations outside Kenya.

## REFERENCES

- Aaker, D.A (1989), Managing Assets and Skill: The key to sustainable competitive accountant, *Journal of the Institute of Certified Public Accountants of Kenya*, Jan-Advantage, California Management Review, pg 91-106
- Alan J. Rowe, Karl E. Dickel, Richard O. Mason, Richard B. Mann, Robert J. Mockler (1994), *Strategic Management: A Methodological Approach*, 4<sup>th</sup> Edition, Addison-Wesley, USA.
- Aloo Akinyi (2008), *Benefits and challenges of multi level marketing in Kenya: A Case of Golden NeoLife Diamite International distributors in Nairobi*, Unpublished MBA Project of the University of Nairobi
- Ansoff, I. and McDonnell, E. (1980), *Implanting Management*, 2 Edition, Prentice Hall.
- Ansoff, I and Mc Donnell E, (1990) *Implanting Strategic Management*, 2<sup>nd</sup> Edition Prentice Hall Cambridge, UK.
- Ansoff I and McDonnell (1990), *Implementing Strategic Management*, Prentice Hall
- Aosa, E. (1982), *Emperical investigation of aspects of strategy formulation within large, private manufacturing companies in Kenya*, Ph.D Dissertation, University of Strathclyde (Scotland)
- Aosa, E (1992), *Emperical investigation of aspects of strategy formulation within large, private manufacturing companies in Kenya*, Ph.D Dissertation, University of Strathclyde Scotland

Arnoldo C. Hax and Nicholas S. Majluf (1996), *the Strategy Concept and Process, a Pragmatic Approach*, 2<sup>nd</sup> Edition, Prentice Hall, New Jersey

Arthur A. Thompson, Jr. A. J. Strickland III & John F. Gamble (2007), *Crafting and executing strategy: Text and Readings*, 15<sup>th</sup> Edition, McGraw- Hill, Irwi.

Bang Magazine (Dec 2010), *Network marketing: ijue Biashara yu mtandao*, Issue no. 35, Pg. 12, Relim entertainment Ltd, Dar es Salaam Tanzania.

Burnes, B. (1996) *Managing Change: Strategic Approach to Organizational Dynamics* \*

Burnes\*, P.C. (2004), *A survey of the impact and challenges of Business to Business (B2B)*

Korir, D.C

Buzzell, R.D., and B.I. Gale (1987), *the PIMS Principles* New York, Free Press

Clayton, C. (1997) *The Innovator's Dilemma* Boston, Harvard Business School Press  
Control Prentice Hall of India, Private Limited New Delhi.

Erik A. Borg (2009), the marketing of innovations in high-technology companies: a Network approach, *European Journal of Marketing*, 3(4), 364-370,  
DOI 10.1108/03090560910935479

Gary Hamel and C. K. Prahalad (1993), *Strategy as Stretch and Leverage*, Harvard Business Review (March April), pp 75-84

Gerry Johnson and Kevan Scholes (2002), *Exploring Corporate Strategy: Texts and Cases*, 6<sup>th</sup> Edition, Prentice Hall, New Delhi

Gerry Johnson, Kevan Scholes, and Richard Whittington (2008), *Exploring Corporate Strategy: Text and Cases*, 8<sup>th</sup> Edition, Prentice Hall, UK

Gichohi Beatrice Wangari. (2007), *the influence of Competitive Strategies on the Performance of hair salons in Nairobi*, Unpublished MBA Project of the University of Nairobi

Gordon Walker (2004). *Modern Competitive Strategy*, McGraw-Hill, Irwin

Grant, R.M., (2000), *The Resource-based Theory of Competitive Advantage Implications for Strategy Formulation*", California

Hamel, G., and C. K. Prahalad (1989), *Strategic Intent*, Harvard Business Review (May June), pp 63-77.

Hamel, G., Prahalad, C.K. (1994), *Competing for the Future*, Harvard Business School Press, Boston, MA.

Harrigan, K.R., (1985) *Strategies for Joint Ventures*, Lexington Books, Lexington-MA

Henry, M., (1978), Patterns of Strategy Formulation, *Management Science* Vol. 24, pp 934-948

Hickman Bert G (1992), *International Production and Competitiveness: implementation within large, private manufacturing companies in Kenya* \*

John A Pearce II, Richard H. Robinson Jr, and Amita Mital (2010), *Strategic Management Formulating, Implementation and Control*, 10<sup>th</sup> Edition, McGraw Hill, New Delhi

Johnson, G. and Scholes, K. (2002), *Exploring corporate strategy*, 6<sup>th</sup> Edition, Prentice-Hall, New Delhi.

Julia Balogun and Veronica Hope Hailey (2008), *Exploring Strategic Change*, 3<sup>rd</sup> Edition, Pearson, UK

Julius Okoth Otieno, (2007), *A Survey on the use of New Performance Measures: A case of firms listed at the Nairobi Stock Exchange*, Unpublished MBA Project of the University of Nairobi

Kautz, M., Selman, R.E., and Shah, W. (1997), *Executing Your Strategy. How to break it down and get it done*, Harvard Business School Press, Boston, Massachusetts.

Kitonyi Samson Wambua, (2008), *Response Strategies to External Environment: A Case study of Postal Corporation of Kenya (PCK)*, Unpublished MBA Project of the University of Nairobi

Kombo H.K 1997. *Strategic Responses by firms facing changing environmental conditions: The Case of Motor vehicle franchise holders in Nairobi*, University of Nairobi Unpublished MBA Project Paper, Nairobi, Kenya.

Kotler, P. (1997), *Marketing Management: Analysis, Planning & Implementation*, London

Kotler P. (2000), *Strategic Marketing for Nonprofit Organizations*, 6<sup>th</sup> edition, Prentice-Hall,

Lowes B. C. Pass and S. Saunderson (1994), *Companies and the Market Understanding business Strategy and the Market Environment*, Oxford Blackwell, March PP 24-26

- Micheal R. Solomon, Greg W. Marshall, & Elnora W. Stuart (2009), *Marketing: Real People, Real Choices*, 6<sup>th</sup> Edition, Pearson International
- Mintzberg, H. (1987), *Strategy Safari: Your Complete Guide through The Wilds of Strategic Management*, 2<sup>nd</sup> Edition, Prentice Hall, Harlow England
- Mintzberg, H. and Quinn, J.B. (1991), *The Strategy Process*, Prentice-Hall, Harlow
- Mudanya S Magovi (2007), *Response strategies to environmental challenges by firms in the cement industry in Kenya*, Unpublished MBA Project of the University of Nairobi
- Mugende, O.M & Mugende, A.G (2003), *Research Methods, Quantitative & Qualitative Approaches*, Acts Press, Nairobi
- Nachmias, V.F. & Nachmias, D (1996), *Research Methods in the Social Sciences*, 2<sup>nd</sup> edition, *Nairobi Journal of Management Role*, 1<sup>st</sup> July Pitman publishing
- Pearce J.A., and Robinson R.B., (2009), *Strategic Management: Formulation, Implementation and Control*, 11th edition, McGraw-Hill/Irwin, New York.
- Porter M.E., (1980), *Competitive Strategy Techniques for Analyzing Industries and Competitors*, Free Press, New York,
- Porter, M.E. (1996), "What is strategy?" *Harvard Business Review*, Vol. 17 pp.33-47.
- Prabhalad C.K., Hamel G., (1990), Core Competency Concept, *Harvard Business Review*, May – June 1990 Prakshan, 2<sup>nd</sup> Edition. Prentice Hall NJ

- Robert M. Grant (1998). *Contemporary Strategy Analysis*. 3<sup>rd</sup> Edition, Blackwell publishers, UK
- Rukwaro, M W (2001). '*Credit Rationing by MFIs and its influence on the operation of MSEs*' Unpublished MBA Project, University Of Nairobi, 2001
- Seibel, Hans Dieter (1996). *Financial Systems Development and microfinance*, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Publication.
- Self, P (1993). Government by the Market. *Strategic Management Journal* 13(5): 363-380, Macmillan London
- Susan Akinyi Ameyia, (2008). *Management of Strategic Change at Rift Valley Railways (Kenya) Ltd*. Unpublished MBA project of the University of Nairobi
- Shawndra Hill, Foster Provost & Chris Volinsky (2006). Network Based Marketing: Identifying likely Adopters via consumer Networks. *Statistical Science*, 21(2): 256-276, DOI: 10.1214/088342306000000222
- Thomas L. wheelen & J. David Hunger (2008). *Strategic Management and Business Policy*, 11th Edition, Pearson Education
- Thompson, et al., (2007) *Crafting and Executing Strategy: Text and Readings 15<sup>th</sup> edition*, McGraw Hill Companies, New York
- Tony Grundy, (1995). *Breaking through Strategies for Growth*, Pearson, UK

## **APPENDICES**

### **APPENDIX I: COVER LETTER**

**TUSHIMIRE CAROLINE KAPERRE,**

**University of Nairobi,**

**P.O BOX, 30197**

**Nairobi.**

**August 2011**

**Dear Sir/Madam,**

#### **RE: DATA COLLECTION**

I am a postgraduate student at University of Nairobi undertaking a Master of Business Administration degree Program majoring in Strategic Management. One of my academic outputs before graduating is a thesis and for this I have chosen the research topic "influence of external environment on the performance of organization a case of Dynapharm Kenya Ltd".

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 was used strictly for academic purposes and was treated with utmost confidence.

A copy of the final report was available to you upon request. Your assistance was highly appreciated.

**Yours sincerely,**

**TUSHIMIRE CAROLINE KAPERRE**



## APPENDIX II: INTERVIEW GUIDE

1. Interviewee's managerial position: \_\_\_\_\_
2. Years with the Company: \_\_\_\_\_
3. Years in the current position: \_\_\_\_\_
4. What dynamics have taken place in your business environment?
5. What is your role in the company's strategies formulation process?
6. How can you describe your environment, is it static or dynamic, and how?
7. What strategies have Dynapharm Kenya Ltd applied that have been driven by external forces?
8. When were these strategies initiated?
9. Have these strategies cushioned the company against external threats, and have they been able to foster exploitation of external opportunities?
10. What are the strategic responses by Dynapharm Kenya Ltd to external environment forces? Who is responsible?
11. What is the influence of the following external environmental forces to Dynapharm Kenya Ltd? Explain.
  - a. Competition in the industry
  - b. Market
  - c. Technology
  - d. Economic forces
  - e. Legal/Regulatory factors
  - f. Substitute products/services
  - g. Weather changes
12. How has the company been able to amend its strategy implementation process as per the external environment explained in (8) above?
13. Overall, do you think Dynapharm Kenya Ltd has successfully positioned itself to its operations? How? Explain?
14. How has the external environment affected the following performance areas in this Organization? (Negatively, positively, both, otherwise?)
  - a) Market share

- b) Customer satisfaction
- c) Product expansion
- d) Geographical expansion
- e) Market standing
- f) Innovativeness

**APPENDIX III :TIME PLAN**

Activity	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER
Proposal development						
Approval						
Data collection						
Data						

<b>analysis/ Project write up</b>						
<b>Project submission</b>						

**APPENDIX IV: BUDGET**

<b>Stationery</b>	<b>12,700.00</b>
<b>printing proposal</b>	<b>8,000.00</b>
<b>Photocopy</b>	<b>1,800.00</b>
<b>Transport</b>	<b>19,000.00</b>
<b>Miscellaneous expenses (15%)</b>	<b>3,300.00</b>
<b>Total</b>	<b>51,000.00</b>