# RESPONSE STRATEGIES ADOPTED BY SERENA GROUP OF HOTELS TO DEAL WITH ENVIRONMENTAL CHALLENGES IN EAST AFRICA
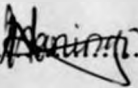
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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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# DECLARATION

This research project is my original work and has not been presented for examination to any other university.

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D61/63066/2011

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

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# DEDICATION

This project is dedicated to my fiancé Eric ThukuNdung'u. I owe my deepest gratitude to him for his love and support towards the completion of this project.

# ACKNOWLEDGEMENT

First, I am thankful to the Almighty God who constantly reassures me that with Him, all things are possible.

I would like to express profound gratitude to my supervisor, Ms. Florence Muindi, for her invaluable support, encouragement, supervision and useful suggestions throughout this research work.

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# ABSTRACT

Liberalization and globalization of world economies have caused turbulence in the business environment, more so to those in the hospitality industry. In this regard, protected organizations have found themselves in an unfamiliar trading environment. Their past operational efficiency and markets are no longer protected. They are now under pressure to change and align their structures and management strategies to environmental challenges.

This project was a case study of Serena Group of Hotels to determine response strategies that have been adopted by the Group to deal with the environmental challenges in East Africa.A case study is an in-depth investigation of an individual, institution or phenomenon, and has a value of enabling the authors to explore the content under study and retain holistic characteristics of real life events in fields such as organizational and managerial processes. The study also helped establish that it is indeed true that Serena Group of Hotels operates in a very dynamic environment. The objective was to document the responses by the Serena Group of Hotels to curb the challenges caused by the environmental challenges. Being a case study therefore, the research findings cannot be used to make generalization for the hospitality industry as a whole.

The study made use of primary and secondary data. The primary data was obtained through sending the interview guideto the departmental heads, in charge of finance and accounts, engineering, operations, information technology, human resources, sales and marketing, and administration, in which case all the targeted respondents were available for the interview. This method helped in extracting some in depth information through direct questions in which a questionnaire by itself could not be very helpful. The interview guide was constructed around the research propositions that were expected to be answered in the research. The results were developed in line with the objective of the study (the questionnaires had open ended questions so as not to limit the responses by the interviewees). Data analysis was done through content analysis.

In conclusion, therefore, different organizations face different environmental challenges, and thus they adopt equally different strategies to respond to such challenges; hence the findings of this study cannot be generalized to apply across all

organizations. The study also focused on the key response strategies and did not include other response strategies adopted by Serena Group of Hotels, such as, business process reengineering, among others. The study found out that Serena Group of Hotels has responded to challenges in the business environment through implementation of response strategies that include cost leadership, differentiation and focus, outsourcing, restructuring, new technological development, distribution and product innovation. From the study results, it is recommended that the management of Serena Group of Hotels needs to be more proactive rather than reactive in its response strategies, that is, management should be very alert on the changes in the business environment and they should be keen to respond in good time in order to outsmart competition.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Organizations are open systems operating in turbulent environment and change is inevitable as yesterday's determinants of success can be today's and tomorrow's determinants of failure (Kottler, 2003). The general environment is composed of factors that have dramatic effect on firm's strategy (Dess, Lumpkin and Taylor, 2006). Typically, a firm has little ability to predict trends and events in the general environment and even less ability to control them. Therefore, organizations must respond appropriately to the changes in their environment in order to survive and achieve their objectives. According to Tregoe (2001) organizations without a strategy may survive, but they will never thrive. In response to this, he advocated that organizations need to create and implement an effective strategy in order to excel in today's market place. Changes may be technological, legal, products, markets and competitors, social, ecological, economic and political (Charles and Gareth, 1998). These changes affect all organizations, whether private, public, non-governmental and not for profit making organizations. The environments do not remain in the same state long enough for an organization to be able to respond and find a favorable competitive position and exploit it (Eisenhardt and Brown, 1998). The limited time frame challenges firms to respond quickly and with resilience to external changes.

According to Pearce and Robinson (2007) organizations are environment dependent, they depend on environment for survival and require money, equipment, human resources from the environment as input. Also, turbulent environments call for organizations to be able to detect and respond to and create new opportunities and then select those that are worthy of actual resource allocation in order to be exploited for the firm's benefit, and the ability of firms to benefit from new opportunities requires them to develop new resources and dynamic capabilities over time rather than protect their unique resources. Serena Group of Hotels, just like any other organization, is affected by the environment, and hence management have to keep in mind that it is not for the environment to change in their favor, but it is up to them to update their operations in line with the environmental changes, otherwise they will be pushed out of business (Eisenhardt and Brown, 1998).

Failure to adequately define or understand hospitality as a commercial phenomenon has created a fragmented academic environment and a schizophrenia in the industry that has the potential to limit its development as a global industry (Slattery, 2002). By redefining hospitality as behavior and experience, a new perspective emerges that has exciting implications for the management of hospitality businesses. A framework to describe hospitality in the commercial domain is proposed. This framework suggests a focus on the host-guest relationship, generosity, theatre and performance, "lots of little surprises", and the security of strangers; a focus that provides guests with experiences that are personal, memorable and add value to their lives. Serena Group of Hotels, just like any other organization, is affected by the environment, and hence management have to keep in mind that it is not for the environment to change in their favor, but it is up to them to update their operations in line with the environmental changes, otherwise they will be pushed out of business (Eisenhardt and Brown, 1998).

### 1.1.1 Response Strategies

Tregoe (2001) defined strategy as a framework within which the choices about the nature and direction of an organization are made. Framework means boundaries or parameters defined by clear criteria which help determine what lies inside or outside the scope of the organization's strategy. Choices to be made are what products and/or services will and will not be offered; what markets will and will not be served; and what key capabilities are needed to take products to markets.

Response strategies are concerned with decisions and actions meant to achieve business objectives and purpose. Pearce and Robinson (2007) defined response strategies as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. According to Hitt, Ireland and Hoskinsson (2004) response strategies or strategic action is a market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse. In order to effectively achieve the firm's objectives, this set of plans and actions must be strategically fit to the complexities and dynamism of a rapidly shifting environment.

Some of the strategies adopted by various firms, as shown in other studies are; Chepkwony (2001) studied how the response strategies of petroleum firms in Kenya to challenges of increased competition in the industry players has made various

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strategic changes in their internal dimensions. Major adjustments were carried out on strategic variables such as product, promotion, social responsibility, process, research and development, and costs structure. Isaboke (2001) carried out investigations on strategic responses by major oil companies in Kenya to the threats of new entrants. He established that majority of the oil companies are using combination of generic strategies including cost leadership, differentiation and market focus, segmentation, penetration and development of new markets. They also use competitive strategies such as the use of convenient stores and restaurant franchise in up-market areas to compete against the new entrant. Thiga (2002) found out that firms in the aviation industry formed alliances and partnerships so as to globalize their route and earn competitive edge. The airlines surveyed had adapted strategies that helped them cope with the changed environmental conditions.

## 1.1.2 Hospitality Industry in East Africa

The schizophrenia of the hospitality industry, and the "fragmentation" of hospitality academia, is a potentially limiting factor in the industry's drive for growth and development (Jones, 2004). This schizophrenia is illustrated by questions about whether the hospitality industry is a service industry, whether it is entertainment, or art or theatre, or retailing, or whether it is no more than another form of business (Jayawardena, 2000). In the academic world, the dominant approach is one based on business and management, with many institutions focusing on services and some taking a retailing perspective. Jones (2004) sought to identify the "principal schools of thought" and identified six main approaches: science, management, studies, relationships, systems, and pragmatism. However, according to Morrison & O'Mahoney (2002) there are some "major tensions, contradictions and debates confronting contemporary hospitality management educationalists", and that hospitality management as a field of study "continues to struggle for definition".

Whether the hospitality industry in East Africa has what it takes to be five-star can only be achieved through continuous re-training of the personnel and motivation of employees through good pay and incentives, which will give them the morale to strive towards giving quality and reliable service. East Africa countries have realized it is only through the above that can indeed be destination of choice if their house is put in order. As more hotels open around the country, there is a need to; "building the perfect hotel" and the role of a consultant in the hotel development process.

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Moreover, there are ways to make the hotel Bar more functional to accommodate extra guests during holiday seasons. There are several essential things that are supposed to be known about your hotel guests to be able to offer great service (Jones, 2004). Traditionally tourist activity at the Kenya Coast is low during the "off season" so that many properties opt to shut down temporarily. In reality, the hotels should not shut down and actually it is the best time to stay open as there are many ways on how they can operate and generate new business off season.

### 1.1.3 Serena Group of Hotels

Serena Group of Hotels is an international hotel group with a global reach established in the 1969 and currently owns and manages thirty-three up-market hotels, safari lodges, camps and luxury resorts in East andSouthern Africa and Asia, providing clients with splendid accommodation, conference and holiday solutions (Serena Hotels, Company Profile, 2011). The Serena Group first started its operations in hotels and tourism in Kenya under the "Serena" name in the early 1970s. When the Serena Group was established, the aim was simple but challenging: to become the leading hotel group in East Africa. Today, this goal has become a reality and Serena Hotels are recognized both locally and internationally as clear market leaders, offering the highest standards of service in establishments of unique design in prime locations throughout the region.

Serena Hotels' properties are located in some of the most exquisite and prime locations which have been strategically selected to offer exciting circuits for their clients. With an unrivalled focus on product, service standards and guest satisfaction, Serena Group of Hotels continues in its quest to be the hotel/lodge of choice for the discerning traveler. Serena Tourism Promotion Services is the arm of the Aga Khan Fund for Economic Development (AKFED), an international development agency and the only for-profit institution in the Aga Khan Development Network (AKDN) that was founded by the Aga Khan in 1984, to carry out AKDN's activities in economic development. In 1997, the Kenyan operations under the name Tourism Promotion Services Limited (TPSL), was floated in the Nairobi Securities Exchange as a public company. Over the years, the Serena Group expanded its operations in Tanzania and Zanzibar, after which in 2006, the TPS Serena Group in East Africa was restructured and the Company, TPS Eastern Africa Limited, was the public company comprising of Tourism Promotion Services (Kenya) Limited, Tourism Promotion Services

(Tanzania) Limited and Tourism Promotion Services (Zanzibar) Limited as its subsidiaries. TPSL was de-listed (Annual Reports and Financial Statements, 2006).

The Aga Khan Fund for Economic Development (AKFED) is a major shareholder of TPS Eastern Africa Limited (TPSEAL), and has majority shares in TPS. AKFED promotes tourism by building and managing hotels, in selected areas of the developing world that contribute to economic growth in an economically viable and environmentally sensitive manner. Projects must not only be economically sound, but also have long-term development potential for the country and the region (Jones, 2004).

## 1.2 Research Problem

A fundamental change in the business environment is likely to create pressure for change in an organization. Any specific factor in the business environment will affect some organizations more than others. It will also affect some organizations favorably while posing a threat to others. It is imperative for organizations to continuously study the environment and respond to its dynamism, heterogeneity, instability and uncertainty if they are to retain their competitive advantage. All organizations are environmental dependent, and can thus be referred to as open systems. Strategic response is important in dealing with environmental challenges because, if a firm wants to succeed in the long run, it has to make every effort to ensure that it is not affected adversely by environmental challenges. All organizations, whether for-profit or non-profit, private or public, large or small, operate within environments that exhibit different levels of turbulence and complexity. For any organizations to survive and succeed in such environment, it must understand the changes and adopt strategies that will enable it align and realign itself favorably (Ansoff, 1998).

Liberalization and globalization of world economies have caused turbulence in the business environment, more so to those in the hospitality industry, Serena Group of Hotels being in the industry. In this regard, protected organizations have found themselves in an unfamiliar trading environment. Their past operational efficiency and markets are no longer protected. They are now under pressure to change and align their structures and management strategies so as to be able to deal with environmental challenges. Response strategies involve change as organizations and their environment are constantly changing. Some of the environmental challenges that have

faced Serena Group of Hotels include; post-election violence in 2008, the Al-Shabaab terror attacks happening in the present, as well as the US travel advisory/caution issued by the US government. The environment in which Serena Group of Hotels is operating is very volatile, intensely competitive and is greatly affected by the changing business environment which include; political, economic, social, technological, ecological and legal (PESTEL) forces that are largely outside the control and influence of Serena Group of Hotels and that can potentially have both a positive and a negative impact on the hotel (Johnson & Scholes, 2003).

A number of studies have been done locally on response strategies by organizations towards the changing business environment; Kandie (2001) focused on response strategies by Telkom Kenya Ltd in a competitive environment; Kiptugen (2003) researched on response strategies by Kenya Commercial Bank to a changing competitive environment; Mohamed (2008) focused on response strategies by commercial banks in Kenya to business environmental conditions. While these studies have revealed that different organizations face different environmental challenges, the organizations adopt equally different strategies to respond to such challenges. Therefore, the findings cannot be generalized to apply across all organizations. Consequently, no known study has looked at response strategies adopted by Serena Group of Hotels to environmental challenges. This study seeks to address the inherent gap by answering the question: What response strategies has Serena Group of Hotels adopted to deal with the environmental challenges?

## 1.3 Research Objective

The objective is to determine the response strategies adopted by Serena Group of Hotels to help them deal with environmental challenges.

## 1.4 Value of the Study

The findings of this study will be beneficial to various stakeholders of importance: First, the shareholders and management of Serena Group of Hotels; they will be able to know the environmental challenges facing the group, at the same time, they will be able to formulate strategies which they can implement so that they can compete effectively with other established Hotels.

Second, it will be of benefit to other organizations that may face similar environmental changes, mostly those in the hospitality industry, as they will be able to

know the changes which have taken place in the environment and therefore design strategies which can respond effectively to the changes. The policy makers will obtain knowledge of the changes that have taken place in the hospitality industry thus use the information in designing appropriate policies that will regulate the industry.

Third, the study will help organizations to identify new opportunities by prompt response to the challenges of the dynamically changing environment and flexible movement towards the market demand.

Fourth, for academicians, this study will form the foundation upon which other related and replicated studies can be based on.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 The Concept of Strategy

Strategy is a multi-dimensional concept and various authors have defined strategy in different ways. Chandler (1962) refers to strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals. Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish (Hofer and Schendel, 1978). It is meant to provide guidance and direction for activities of the organization. Since strategic decisions influence the way organizations respond to their environment, the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment.

Mintzberg (1994) defined strategy as a pattern in a stream of decisions and actions. He defined strategy as a plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position, but an ingrained way of perceiving the world.

Strategy can be defined as the establishment of the long-term goals and objectives of an organization, including the taking of actions and allocation of resources for achieving these goals (Chandler, 1962). Pearce and Robinson (2007) define strategy as a company's game plan. Strategy in business is concerned with superior performance. The essence of formulating strategy is relating a company to its environment (Porter, 1998). According to Hamel and Prahalad (1994) the essence of strategy lies in creating tomorrow's competitive advantage faster than competitors before they mimic the ones you possess today.

## 2.2 Environmental Challenges

According to Johnson and Scholes (2002) dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

Organization responses to the environment often involve change. For change to be successful, it has to link the strategic and operational aspects of the organizations. It therefore emphasizes the importance of translating strategic change into detailed resource plans, critical success factors and key tasks but also the way the organization is managed through control processes and everyday communication. (Johnson and Scholes, 2003).

Johnson and Scholes (2003), show that dealing with the environment is difficult because of three factors. First, diversity of different influences that affect businesses identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. Second, is the speed of change, managers typically feel that the pace of technological change and the speed of global communication mean more and faster changes than ever before. Third, is the problem of complexity, management tries to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It's important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

## 2.3 Response Strategies to Environmental Challenges

Response strategies can be seen as matching of the activities of an organization to the environment in which it operates. A response strategy affects the long term direction of the organization and requires large amounts of resources. It is aimed at achieving advantage for the organization and as such it is concerned with the scope of the entire organization's activities (Johnson and Scholes, 2003). According to Ansoff (1990) information obtained from strategic diagnosis is used to select a response strategy which will assure the firm's future success.

Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. The response strategy process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; system delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

According to Ansoff and McDonnell (1990) response strategies involve changes to organization's strategy behavior to assume success in transforming future environment. Strategy is a bridge between the firm's resources and the opportunities and the risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the responses depends on the speed with which a particular threat or opportunity develops in the environment. Well developed and targeted response strategies are formidable weapons for a firm in acquiring and sustaining competitive edge. Some of the response strategies may include; cost leadership, differentiation, focus, outsourcing, information technology, delivery and distribution, and product innovation strategy. Effective response strategies may enable a business to influence the environment in its favor and even defend itself against competition.

Porter (2005) observes that for firms to be able to retain competitive advantage, they need to examine their environment, both internal and external and respond accordingly. Ansoff and McDonnell (1990) also point out that the success of every organization is determined by the match between its strategic responsiveness and

strategic aggressiveness and how these are matched to level environmental turbulence. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development. To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the firm needs and what the environment can provide (Johnson and Scholes, 2002).

Abdullahi (2000) in his study of the response strategies by Kenyan Insurance companies following liberalization found out that although adverse economic reforms in Kenya had made the business environment turbulent, the insurance companies agreed that there was no need to respond to the changes. From his study, it was very clear that the insurance companies agreed that insurance companies were not properly prepared for any changes. Isaboke (2001) found out that majority of major companies responded to the threat of new entrants by changing products and services offered, the market segment served and the technology used. In a study of the SACCos in Kenya, Wairegi (2004) established that the industry had responded to challenges in the environment through development of new distribution channels as internet, investment in human resource development, and computerization of the core business.

The above differences in response strategies by companies that were studied can be explained by the observation made by Hofer and Schendel (1978) who point out that the different response, despite perception of the same challenges may be due to differences in the firm's resources or capacities. Another possible reason for the difference in response strategies that are found is the level of organizational slack. Slack is defined as the differences between the resources available to the organization and the total requirements of the members of the organizational coalition. The overall responsibility for effective response strategies belongs to the top management of the firm.

## 2.3.1 Cost Leadership, Differentiation and Focus Strategies

Porter (1985) describes a category scheme consisting of three generic competitive strategies that are commonly used by businesses to achieve and maintain competitive advantage; cost-leadership, differentiation and focus strategies. Cost-leadership aims at being efficient in production and operations to reduce costs by having controls to

this effect. This strategy emphasizes efficiency. It aims at becoming the lowest cost producer in the industry. The product is often produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This strategy is usually associated with large-scale business offering standard products with relatively little differentiation and that are perfectly acceptable to the majority of customers (Porter, 1985). According to Pearce and Robinson (2007) when a firm designs, produces, and markets a product more efficiently, than its competitors, such a firm has implemented a cost leadership strategy. Cost reduction strategies across the activity cost chain will represent low cost leadership. Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product (Overby, 2007).

Differentiation means targeting different market segments and catering for each individually to gain maximum value. Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique (Porter, 1985). The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network or customer's service. Barney (2001) states that though a company may have several basis of differentiation, in the end, it is only perception that will matter. To build competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rivals to match (Thompson and Strickland, 2007). The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in the market segments. The emphasis can be on brand image, proprietary technology, special features, superior services, a strong distribution network or other aspects that might be specific to an industry (Pearce and Robinson, 2007). Differentiation strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation (Pearce and Robinson, 2007). It is hoped that by focusing its marketing efforts on one or two narrow market segments and tailoring its marketing to these specialized markets, a firm can better meet the needs of that target market. The firm typically looks to gain competitive advantage through product innovation and/or brand marketing rather than

efficiency. It is most suitable for relatively small firms but can be used by any company.

Focus involves concentrating on one particular market niche to position in the market. Grant (2000) argues that focus strategy concentrates on serving a particular market niche, which can be defined geographically or through the type of customer or by segment of the product line. Organizations can make use of the focus strategy by focusing on a specific niche. This is sometimes referred to as the niche strategy (Johnson and Scholes, 2002). Firms pursuing this strategy are willing to service isolated geographic areas, satisfy needs of customers with special financing, inventory or servicing problems or even to tailor the products to somewhat unique demands of the small to medium sized customers.

According to Porter (1985) a firm's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance. This strategy differs from the first two (cost leadership and differentiation) in that it is directed towards serving the needs of a limited customer group or a segment making the company specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-end cost and differentiated enterprise which tend to be larger.

## 2.3.2 Outsourcing Strategy

Outsourcing is the process of contracting an outside company to provide a service previously performed by staff. In many cases, outsourcing involves a transfer of management responsibility for delivery of services and internal staffing patterns to an outside organization. It is a business strategy whereby a company hires an independent outside company to do some of its non-core company work. It is subcontracting a process, like product design or manufacturing, to a third-party company. It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider (Overby, 2007).

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide

other efficiency and effectiveness improvements (Hamel and Prahalad, 1994). It assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. Focusing on the core activities ensures the collective learning especially on how to co-ordinate diverse production skills and integrates multiple streams of technologies.

### 2.3.3 Restructuring Strategy

According to Bateman and Zeithaml (1990), restructuring sometimes occurs when a company changes strategy. Restructuring, reengineering, transformation, renewal, and reorientation are words that describe the same general phenomenon a change in how business is conducted. Only the firms which are ready and able to realize continuous changes - the firms which approach actively to a process of restructuring and (or) reengineering can be successful in the present world. Corporate restructuring is the process of redesigning one or more aspects of a company. The process of reorganizing a company may be implemented due to a number of different factors, such as positioning the company to be more competitive, survive a currently adverse economic climate, or poise the corporation to move in an entirely new direction. Here are some examples of why corporate restructuring may take place and what it can mean for the company. Reorganizations could occur due to changes in strategy (Johnson, Scholes and Whittington, 2005).

### 2.3.4 Information Technology Strategy

Information technology has become a strategic asset which can help improve business processes and change the function of markets. Thus, it is necessary for organizations to continue their efforts in developing and implementing the up-to-date technology. Nevertheless, many organizations still hesitate to adopt new technology and some even believe information technology does not matter as a response strategy because of its commoditization (Carr, 2003).

The computer and developments in telecommunication are most important aspects of information technology that have transformed business environment and processes, (O'Brien, 2002). There can be no doubt that information technology has emerged as a major force in determining success or failure in the business world. Even if one sets aside for the moment, the notion that information technology could possibly contribute to real competitive advantage, the most cursory reviews still reveal that

information systems are a way of life in nearly every facet of business (Ashmore, 1991).

## 2.3.5 Distribution Strategy

Strategic distribution is a competitive advantage that accrues generally from the configuration of a distribution network (who, what, where, when) and, more specifically, from the selection of partners (middlemen) who intermediate between the company and the customer by performing necessary fulfillment and service activities (O'Brien, 2002). Changing lifestyles and increased affluence have led to higher service expectations by the customer and this has made service delivery the key marketing variable. The traditional delivery channel is the branch network. The mass marketing era saw the establishment of branches on every main market (Ansoff, 1990). A company's distribution strategy is largely defined by decisions on the number and type of customer interfaces. That is, order entry points (where and how orders are placed) and fulfillment nodes (where and how customers obtain finished goods).

## 2.3.6 Product Innovation Strategy

In today's economy, firms are challenged to stay competitive and offer a continuous line of innovative products and services. In technologically intensive industries, investments in research and development have been the primary source of product innovation and superior returns. Research and development investments indicate the strategic importance of innovation for a firm (Hamel and Prahalad, 1994) and constitute an important input for the development of intangible capital, differentiation, and product innovation.

Product strategy is not the same as product innovation strategy. According to Ashmore (1991), product strategy is current; the goal is to increase sales in the current product cycle. On the other hand, product innovation is concerned about future trends in competition and market share. Product innovation strategy is about the next product, or rather the next product launch. It will need to address new features due to new customer demands. Separating the two areas allows product managers to focus on the key drivers of product innovation.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter was aimed at setting out various stages and phases that will be followed in completing the study. It involved a blue print for the collection, measurement and analysis of data. The aim of the research was to conduct an analysis of the response strategies adopted by Serena Group of Hotels to deal with environmental challenges. The study was aimed at building theoretical frameworks on how hotels in East Africa would deal with environmental challenges.

## 3.2 Research Design

The research was a Case Study on Serena Group of Hotels' response strategies to environmental challenges. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The case study method has a value of enabling the authors to explore the content under study and, as argued by Yin (1984) retain the holistic characteristics of real life events in fields such as organizational and managerial processes.

## 3.3 Data Collection

The study made use of primary and secondary data. The primary data was obtained through sending the interview guide to the departmental heads, and the results were developed in line with the objective of the study. The main target respondents for interviews were the various departmental heads, more specifically, from Serena's head office. This method helped in extracting some in depth information through directed questions to the respondents in which a questionnaire by itself could not be very helpful. The interview guide was constructed around the research propositions that were expected to be answered in this research. The interviews and discussions were held in Serena Group of Hotels' head office.

The interviewees were the top managers and functional heads in charge of finance and accounts, engineering, operations, information technology, human resources, sales and marketing, and administration. They were considered to be key informants for this research. In addition, the departments in which the respondents work in are the key implementers of the hotel strategies. The secondary data was collected by use of existing audited financial reports of Serena Group of Hotels, existing and previous strategic plans, and the monthly and year performance reports.

## 3.4 Data Analysis

After collection of both primary and secondary data, it was analyzed through content analysis. Content analysis helped in gaining detailed and in-depth information from the qualitative data received. All the information collected on response strategies was analyzed qualitatively on the basis of strategic variables observed.

# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The research objective was to determine the response strategies adopted by Serena Group of Hotels to help them deal with environmental challenges. The primary data was collected mostly from Serena Group of Hotels' top management team who included head of finance and accounts, engineering, operations, information technology, human resources, sales and marketing, and administration. Of the 7 targeted respondents, all of them were available for the interview, leading to 100% response.

## 4.2 Respondent's Background

One of the respondents has attained a post graduate degree, and all the other respondents have done undergraduate degrees. This shows that the responses given came from highly qualified individuals, hence very reliable. In regards to the length of service in the organization, only one respondent has worked for over 24 years, but the rest have worked for less than 8 years. This distribution of respondents in relation to their experience indicated that most were young and energetic, hence giving responses that are related to the current organizational trends, and hence a clear indication that the management of Serena Group of Hotels is composed of young and energetic individuals, who will manage the organization based on the current trends.

## 4.3 Environmental Challenges

All organizations, no matter the industry, are faced by the following environmental challenges; competition, technology, legal issues, economic factors, political factors, social factors, as well as ecological factors. In order to maintain a large market share, any organization has to make sure that it has dealt with its environmental challenges effectively.

In dealing with competition and continue being a market leader, Serena Group of Hotels has had been forced to refine its products and improve its service delivery, since there are many upcoming competitors. For technology advancements, Serena Group of Hotels has invested in new technologies in areas of operations and online

sales. With the online sales, time taken to serve one client is reduced, thus improved efficiency. Also, all operations have been centralized technologically so that regional information is accessible at the head office, resulting in quick and timely attendance to problems. Investment in technology has also helped the organization to improve on efficiency and in turn reduce long term operational costs. Improved technology also means improved communication with Serena Group of Hotels' customers who are spread all over the world. Active adaptation of technology in Serena Group of Hotels' properties accords guests global standard/class of service within Serena.

In relation to legal issues, Serena Group of Hotels' scrutinizes legal contracts before committing to them and honors them thereafter, for example, rates and commissions given to tour operators. This helps maintain the good working relationship with customers. The need for legal compliance and good corporate governance has had the organization invest in the right resources. With the expansion strategies undertaken, Serena Group of Hotels ensures that it is in compliance with the laws and regulations, in order to avoid facing legal issues in future. However, Serena Group of Hotels may face challenges in the future, that is, potential labor relation challenges especially on employee salaries. Serena Group of Hotels also makes sure that it acquires licenses for construction of new units, and also ensures they are up to date with licenses renewal, so as to avoid law suits.

The current economic landscape in the world has had a huge impact on product costs. The economic factors have negatively impacted on Serena Group of Hotels' ability to pay competitive salaries due to financial ups and downs in the international market. Positively, a weaker local economy means an influx of guests due to increased spending power. The world's economic decline and local inflation has affected the revenues and increased costs of operation, putting pressure on management to adjust the systems and processes to be within acceptable cost levels for reasonable profit margins for the organization's growth. Due to the fact that Serena Group of Hotels operates internationally, exchange rate fluctuations may affect it negatively or positively, depending on the net change in currency. These factors have forced Serena Group of Hotels to look for alternative tourism markets in Asia and the far East.

The major political factors that affected Serena Group of Hotels were the post-election violence, Al Shabaab and the related insecurity. In order to deal with these

challenges, Serena Group of Hotels has had to rely on the local markets. In order to deal with the social factors, Serena Group of Hotels has Corporate Social Responsibility programs in education, health, poverty eradication and employment policy to cater for the needs of the local population where they operate. Serena Group of Hotels also hires local employees where its properties are located.

Lastly, in dealing with ecological factors, there is need for Serena Group of Hotels to adapt a global approach whenever possible in its operations, for example, adapt green architecture and carbon footprint conscious undertaking. Serena Group of Hotels also has environment related conservation programs that are funded to cover forestation in degraded localities where they operate, soil conservation, as well as waste management programs in game parks.

## 4.4 Response Strategies Adopted by Serena Group of Hotels

The respondents were asked to give their views on the following response strategies adopted by Serena Group of Hotels; cost leadership, differentiation and focus, outsourcing, restructuring, information technology, distribution and product innovation. Data for these variables, as discussed by the respondents, is summarized below.

## 4.4.1 Cost Leadership, Differentiation and Focus Strategies

From the findings, cost control measures vary depending on the department, as well as the issue in question, but they are all aimed at arriving at a low cost in order for Serena Group of Hotels to compete well in the market. Serena Group of Hotels believes in offering value for money, and thus they apply budgetary control in a proactive manner, by forecasting weekly and monthly. The organization also compares various marketing options in order to come up with the cheapest methods to avoid raising advertising costs unnecessarily, but they also take into consideration the benefits that will accrue in relation to the costs incurred.

Serena Group of Hotels does not always undertake projects that are at the lowest cost, but selects projects with the highest Return on Investment, and the vetting process is based on design versus functionality and performance, and costs comparison, and duration of execution come in later. The organization believes in lowering costs, but only as long as, or to an extent that it does not compromise the quality of products and

services offered. Hence, low costs should be observed during production, but it should be as long as quality is maintained.

For differentiation strategy, Serena Group of Hotels has differentiated product-wise as well as in service delivery - since being a market leader, it introduced new products and changed them regularly to attract clients. Through continuous training, Serena Group of Hotels' staff are empowered to give service that supersedes client expectation. Serena Group of Hotels has also differentiated in terms of price, offering their products/services at high prices in the industry, though this has created a niche in clients. The organization has also differentiated in service delivery; the organization has ensured that it offers the best service that there is in the industry. In reference to the product, Serena Group of Hotels has also differentiated in that line; the organization develops guest accommodation facilities, with the aim of attracting many guests. The products are uniquely Serena, hence the organization has also differentiated in brand image, especially various business areas. Brand image is associated with the luxurious discerning traveller.

For focus strategy, Serena Group of Hotels has focused on serving a particular market niche by placing itself strategically in various geographical areas that help ensure that it targets customers in various regions, and also so that the foreign tourists can be able to have an itinerary visit without having to cover very long distances without having stop overs, which could be boring and tiring. The organization also focuses on type of customer, and classifies the customers as either corporate customers (for city hotels); safari lodges and resorts (for game watchers). The organization has three products; hotels, lodges and resorts, each focusing on a different market.

## 4.4.2 Outsourcing Strategy

Outsourcing for services is being used widely by many organizations, not only as a cost reduction strategy, but also as a means of allowing organizations to focus more on their core business areas, with the aim of increasing profitability. Serena Group of Hotels identifies outsourcing of non-core functions as a strategy of growing the hotels' profitability since it will be able to fully concentrate on the core business.

The notable outsourced service is laundry at the Nairobi Serena Hotel, transportation of clients to various tourism sites (Serena Group of Hotels contracts tour operators,

such as Napenda Africa Safaris), outsourced printers and also sub-contracted some information technology functions (this helps reduce maintenance costs, as well as reduce obsolete machines in the office; the outsourcing organization helps dispose the same when they become obsolete). Serena Group of Hotels has also outsourced game drive services to tour operators who have transported tourists to the hotels' units.

The benefits cannot be currently quantified, because they were services that were outsourced in the 1980's, and values have fluctuated, hence the costs in those years cannot be compared with current costs, as it would seem costly or look unreasonable to outsource if those values are used.

## 4.4.3 Restructuring Strategy

Serena Group of Hotels has adopted an expansion program for reasons like being able to cover tourism circuit in Kenya and the region by introducing new units that will attract game watchers, as well as those that will attract corporates, so that they can be able to capture all customers' needs as well as target revenues from all areas and thus maximize on their profits. Also, to mitigate/spread political and geographical risks, Serena Group of Hotels is in all the East African countries. Serena Group of Hotels also has director of Hotels as well as director of Lodges, to ensure that operations are run smoothly and that the different types of customers are well/adequately taken care of.

Serena Group of Hotels has recently built Lake Elmenteita Serena Camp, which started operating in April 2011. They have also rehabilitated old structures every now and then so as to retain existing customers and attract new ones. The organization also acquired Dar es Salaam Serena Hotel in October 2011, also with the aim of completing the circuit, and attracting more customers.

### 4.4.4 Information Technology Strategy

Changes in the business environment necessitated Serena Group of Hotels to automate its manual operations so as to meet customer needs, reduce costs, and also remain competitive. Serena Group of Hotels has to re-evaluate information communication technology system every now and then to cope with ever changing information technology trend. The organization's staff members regularly attend seminars and relevant world shows and training conducted in different parts of the

world, and users are thereafter introduced to the new trends by the in-house experts. Seminars play a major role in ensuring that staff are up to date with technology. The engineering team also attends seminars that help them in their engineering work, as they also need information technology so that they are up to date with new and faster ways of doing their engineering work. The organization is working towards improving its information technology processes and systems to reduce costs and enhance quality of services they provide.

Information technology is a key asset in marketing, hence the organization needs to be up to date so that the marketing activities can be cost effective and reach a wider number of clients, with very little effort. Technological change has had an impact on the operating environment. This means that Serena Group of Hotels has to respond to changes in order to remain competitive in a dynamic environment. Information technology department is tasked with the duty of creating a rapport with other information technology experts (those who solely specialize in information technology) so that they are always updated on trends in technology.

## 4.4.5 Distribution Strategy

The growing competition in the business environment calls for the development of new business strategies by every organization. Indeed, as the organization makes new innovations, they must continuously keep abreast of what organizations are doing. Judged by the increasing similarity of products and services features, one can easily postulate that organizations are quietly replicating products and services developed by competitors. To ensure that product distribution is effective, there is a procurement director in place and a business development manager to counter the changing market trends, and also keep a good relationship with the distribution agents/middlemen, so that they distribute in a timely manner, to avoid complains from customers on delayed goods and services.

Feasibility study has been carried out to ensure that the distribution of the goods to the units will incur reasonable costs, or costs that will be outweighed by the benefits, since it is important for any organization's benefits to outweigh its costs, otherwise it will be pushed out of business by the competitors whose benefits outweigh costs. Distributors are hired on performance basis, and non-performers are easily replaced

by newly contracted distributors who look promising, and who should perform, otherwise, they will also be replaced.

## 4.4.6 Product Innovation Strategy

Serena Group of Hotels has laid a lot of emphasis on product and service innovation development and modification to respond to the ever-changing needs of customers. The research and development team has ventured in areas such as; sourcing for the right location to build new hotels or lodges so as to meet clients' needs - so that they patronize on the hotel more often. There is also introduction of new menu after tests and recipe costing, as well as doing regular/annual wine tasting by inviting different wine tasters and wine lovers to change and update the wine lists, and thus satisfy the customers more.

The engineering team researches on new advanced products, that is, silent and low consumer generators which are less costly to run. The executive committee also researches on trends in the industry and tries to guide the organization as per the research findings so as to help improve on products and service delivery. Also, before a unit is built, a proper analysis has to be undertaken so that feasibility is weighed.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary

The business environment within which businesses operate is very volatile, therefore, organizations must develop appropriately response mechanisms to deal with the rapid change in their environment in order to survive and to achieve their strategic objectives. The study found out that Serena Group of Hotels, like any other organization, has responded to changes in the business environment through implementation of response strategies that include cost leadership, differentiation and focus, outsourcing, restructuring, information technology, distribution and product innovation strategies.

The study found out that Serena Group of Hotels has continuously carried out research, so that it is in line with its objectives of keeping the customer first, and this helps them avoid the possibility of losing customers to its closest competitors. Serena Group of Hotels has also developed its strategic plans over the years, and continuously reviewed strategic plan and changed the themes, vision and mission to conform to the challenges emanating from the environment.

Cultural transformation has taken place, where barriers between the top management have been brought down through various recommendations by consultants hired by the hotel to offer various training sessions to staff of the hotel including the top management. The transformation has also been made easy by having team building sessions arranged for all staff members.

Trends in the business environment, more than ever before, now call for strategic alliance for cost effectiveness in the service delivery and economies of scale for mutual benefit of organizations involved. These alliances facilitate information and knowledge sharing and technical cooperation in projects including payment systems, online booking procedures and training. On responses strategies, the study established that each and every department had a strategic approach to responses.

## 5.2 Conclusion

To conclude the above findings, different organizations face different environmental challenges, hence they adopt equally different strategies to respond to such challenges. Therefore, the findings of this study cannot be generalized to apply across all organizations. The study has shown various strategies and how they have been applied in Serena Group of Hotels. It can be concluded that the findings of this study concur with what is presented in the literature.

The study found out that Serena Group of Hotels has responded to changes in the business environment through implementation of response strategies that include cost leadership, differentiation and focus, outsourcing, restructuring, new technological development, distribution and product innovation.

My expectation is that this study will be beneficial to the shareholders and management of Serena Group of Hotels in the sense that they will be able to know the changes which have taken place in their operating environment and at the same time the strategies which they can implement so that they can compete effectively with other established hotels.

The policy makers will also obtain knowledge of the changes that have taken place in the hospitality industry, thus use the information in designing appropriate policies that will regulate the industry. I also expect that this study will form the foundation upon which other related studies can be based on.

The study also found out that the response strategies adopted by the hotel were not necessarily adequate, hence there is need to improve, most especially on its technology, since it is an area that is faced by many user problems as well as major advancements, and Serena Group of Hotels should always be up to date with this, otherwise they will be pushed out of business. Serena Group of Hotels needs to do all it takes to remain on top or else lose its customers to its closest competitors, and it would prove difficult to attract them back. The empirical literature review has shown various strategies and how they have been applied. The findings of this study concur with what is presented in the literature. However, there is a gap as concerns response strategies among hotels, especially in developing nations such as Kenya. This is therefore an area that needs further analysis.

## 5.3 Recommendations for Policy and Practice

From the results of the study, it is recommended that the management of Serena Group of Hotels needs to be more proactive rather than reactive in its response strategies. This means that management should be very alert on the changes in the business environment and they should be keen to respond in good time in order to outsmart competition. Serena Group of Hotels has to do all it takes to remain on top and thus remain competitive. Serena Group of Hotels should also aggressively market its products and services to create awareness in the market and it needs to be active in the product and service innovation to attract more customers and retain existing ones.

This can be done through active aggressive media campaign through both print and electronic media. Serena Group of Hotels should continue to scan the environment it operates in for opportunities and to develop products that respond to changing customer needs. Serena Group of Hotels needs to also increase its product range as well as services so as to attract even local customers/tourists, to help them continue to make profits even when the international tourists find it hard/risky to visit the country, like in times of Al Shabaab related issues, or other politically influenced issues as they would rather be safe than sorry.

It is also recommended that Serena Group of Hotels should look for technological solutions that meet its needs to avoid going for technological solutions that must be customized to fit local conditions. Local support of technological solutions adopted is important for quick success. This is premised on the fact that by the time you are through with customization, the version is obsolete or not up to date and more funds are required to upgrade to new modern versions. Serena Group of Hotels may have to consider the option of declaring some computer programs/packages redundant and have the same outsourced, so that they concentrate on the core business. It will also mean that they do not have to maintain them, or be forced to purchase some other packages once the packages they are using become obsolete.

It is also recommended that Serena Group of Hotels must re-align its organization structure to respond to growing needs to providing quick services. As far as is possible, the scalar chain must be reduced to stem bureaucratic management of the organization. It is also recommended that strategic alliances must be encouraged and Serena Group of Hotels must repair relationship with tour operator to reach more

customers as well as destinations. Serena Group of Hotels must continually look out for new relations and offer more commission based services to improve on its service delivery and customer base. The study indicates clearly that Serena Group of Hotels must respond to changes in the environment to remain relevant.

On policy and practice, this study, therefore will be important to the hospitality fraternity in the country as they will be able to know the changes which have taken place in the environment and therefore design strategies which can respond effectively to the changes. The policy makers will also obtain knowledge of the changes that have taken place in the hospitality industry thus use the information in designing appropriate policies that will regulate the industry.

## 5.4 Limitations of the Study

The study focused mainly on Serena Group of Hotels and therefore no relationship to response strategies undertaken by all hotels in the country to challenges in the environment. Response strategies are different and custom tailored to meet the customers' preference. This being a case study, therefore, the research findings cannot be used to make generalization for the hospitality industry as a whole. The study also focused on the key response strategies and did not include other response strategies adopted by Serena Group of Hotels, such as, business process reengineering, among others.

Other key respondents were unavailable for the interview due to their busy schedules and also having very little time with the respondents were unavailable for the interview due to their busy schedules and also having very little time with the respondents available for the interview to enquire very deeply into the number of issues because most respondents had allocated a few minutes of time due to time constraint.

## 5.5 Suggestions for Further Research

During this study, the research found out that the operations manager has been changing in a span of less than five years. It would be interesting to carry out a study to show how different management styles of the operations managers have impacted on the hotels' management. This study was a case study of Serena Group of Hotels only, hence there is need to do a cross sectional survey to cover the entire hospitality

industry. This will give an indication of responses made by the hotels in Kenya to the changes in the business environment and hence allow industry generalization to be made. This would also show the general responses adopted by hotels in the industry or it would help in knowing whether responses adopted by one hotel are a hotel specific response.

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# APPENDICES

## APPENDIX: INTERVIEW GUIDE

### Goal of the Interview Process

To determine the response strategies adopted by Serena Group of Hotels to deal with environmental challenges.

## SECTION A: General Background

1. Indicate your position and department _____

2. How long have you worked for Serena Group of Hotels? [ ] 0 – 8 Years [ ] 9 – 16 Years   [ ] 17 – 24 Years [ ] Over 24 Years

3. Highest Education Level _____

## SECTION B: Environmental Challenges

1. Kindly explain how the following environmental challenges have impacted on Serena Group of Hotels' business :-

    i.      Competition in the industry

    ii.     Technological advancement

    iii.    Legal issues

    iv.     Economic factors

    v.      Political factors

    vi.     Social factors

    vii.    Ecological factors

## SECTION C: Response Strategies

1. Are you aiming to be the lowest cost producer?

2. Do you have any cost control measures?

3. How have you differentiated in the market? Is it in products, service delivery, price differentiation or brand image?

4. What focus strategies have you applied? Is it serving a particular market niche, which could be either geographical, through the type of customer, or by segment of the product line?

5. Do you outsource or contract an outside company to provide a service(s) previously performed or that could be performed by staff in order to concentrate on the core value of the entity? How has it helped the firm; is it in reducing the workload and/or improving efficiency?

6. What restructuring strategies have you adopted with the aim of changing how business is conducted so as cope with the ever changing business environment?

7. How do you ensure that you are up to date with current trends in information technology as a strategic asset which can help improve business processes?

8. How do you ensure that you have selected partners/middlemen who will intermediate between the company and the customer so as to ensure that products and services are delivered on time?

9. Have you contracted middlemen to distribute your products? How do you ensure that these middlemen distribute in a timely manner to avoid inefficiencies?

10. Have you invested in research and development as a primary source of product innovation and superior returns? To what extent has this research and development helped you in product innovation?


**Thank you for your cooperation.**