

**MANAGEMENT OF STRATEGIC CHANGE AT BRITISH
AMERICAN TOBACCO KENYA LIMITED**

BY:

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI.**

AUGUST 2012

DECLARATION

This research project is my original work that has not been submitted for examination to any other University.

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D61/P/8029/2004

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

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ACKNOWLEDGEMENTS

I thank the Almighty God for giving me the opportunity to undertake this project. To Him belongs all the Glory, Praise and Honor. I would also like to thank my parents for being a great source of encouragement.

I wish to sincerely thank my supervisor, Dr John Yabs for agreeing to supervise this research project.

I am also grateful to BAT Kenya for allowing me collect data for the research.

DEDICATION

To my dear loving wife Gladys Gathoni Maina for her support, encouragement and patience. To our children Ken, Kevin and Fiona for their understanding and prayers.

To my friends and colleagues, especially Tom Wambua for the invaluable support.

Thank you and May God bless you all abundantly!

ABSTRACT

The tobacco industry in Kenya has experienced many challenges including legislation on smoking in public places, taxation and advertising restrictions. Product counterfeiting, dumping of cheap imports and diversion of export products has been on the increase and continues to threaten the industry. To grow market share and achieve higher returns for its shareholders, BAT's Kenya strategy hinges on innovative production practices along the supply chain as well as the firm's internal value chain.

The study aimed to establish the drivers of strategic change and determine factors considered in the management of strategic change practices in BAT Kenya. Critical managerial variables assessed included goals and strategies, technologies, job design, organizational structure and people.

Since the unit of analysis was one organization, this was a case study. Interview guides were designed and administered to key managers in BAT Kenya. Primary data was collected by use of interview guides which comprised both open ended and closed questions while secondary data sources were also used to provide additional information. Content analysis was used to analyze the data.

The study concludes that BAT is responsive to changes in the business environment. Adaptation to change is reflected at the micro- and macro-business levels. The researcher recommends that the firm focuses heavily in the human resource component to remain competitive. This is more so as the human resource component will largely be difficult to imitate.

TABLE OF CONTENTS

Declaration.....	ii
Acknowledgments.....	iii
Dedication.....	iv
Abstract.....	v
Table of Contents.....	vii

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study	1
1.1.1 Concept of Strategic Change	1
1.1.2 Tobacco Industry in Kenya	3
1.1.3 British American Tobacco (Kenya) Limited	3
1.2 Research Problem	4
1.3 Research Objectives	6
1.4 Value of the Study	6

CHAPTER TWO: LITERATURE REVIEW

2.2 Management of Strategic Change.....	8
2.2.1 Strategic Change Theory and Models	8
2.2.2 Typologies of Strategic Change	11
2.2.3 Strategic Change Management Models	12
2.3 Drivers of Strategic Change	16
2.3.1 Drivers that Motivate Change Initiatives	16

2.3.2	Drivers that Impede Change Initiatives	17
2.4	Practices of Strategic Change.....	19
2.4.1	Organizational Goals and Strategies	19
2.4.2	Management Practices and Organizational Culture	20

CHAPTER THREE: RESEARCH METHODOLOGY

3.1	Introduction	22
3.2	Research Design	22
3.3	Data Collection	23
3.4	Data Analysis	23

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1	Introduction.....	25
4.2	Information on the Respondents.....	25
4.3	Management of Strategic Change Techniques in Response to Changes in the Local Environment.....	27
4.3.1	Strategic Change Management Types	27
4.3.2	Establishing the Drivers of Strategic Change.....	29
4.3.3	Factors Considered in the Management of Strategic Change Practices.....	35

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1	Introduction.....	37
5.2	Summary.....	37
5.3	Overall Conclusion.....	39

5.4	Limitations of the Study.....	40
5.5	Recommendations.....	41
5.6	Areas for Further Research.....	41
REFERENCES		42
APPENDIX 1	Letter to the Respondents	I
APPENDIX 2	Interview Guide	II

CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

In today's turbulent environment, change has become synonymous with standard business practice as long-term organizational ends have to be reformulated on an ongoing basis. The ability to respond to modern micro-markets' demands, where choice to the consumer is preponderant, will depend on the organizations ability to be flexible. The transitory nature of market demands is an important reason why change and flexibility ought to be a defining characteristic of organizational effectiveness.

Even when appropriate change interventions are introduced, the absence of a systematic and integrated process for deploying change can prevent organizations from achieving the desired benefits. It is therefore important to understand change management especially for firms in dynamic sectors with multiple players such as the fast moving consumer goods sector.

British American Tobacco (BAT) takes cognizance of the fact that firms that do not adopt appropriate change interventions remain at risk of failure. The strength of the firm's human resource, supply chain, brands and innovations contribute to revenue growth and help build increased shareholder value.

1.1.1 Concept of Strategic Change

The greater interdependence among world economies, the information explosion and worldwide communications has made the world increasingly complex and dynamic. This complexity and dynamism means that organizations cannot remain stable for

very long. Organizations must anticipate and respond to environmental changes to ensure competitiveness and ultimately, survival. One of the basic assumptions underlying much of the strategic management literature is that successful firms change their strategies to attain a better fit with the environment (Grieves, 2010).

A concept that runs through much of the recent literature on organizational change is that of “learning organizations.” A corporate willingness to learn, by analyzing and adapting to the challenges facing the firm, greatly increases the likelihood of successful change or transformation. Duck (2001) claims that exceptional change leaders are the ones who realize that their legacy lies not in a single transformation, but in teaching their firm to perpetually adapt to a changing world. Leadership, whether in name or in function, is consistently described as essential for successful transformations.

Based on deWit and Meyer's (2004) study, it may be asserted that strategic change has large scale significance for organizational improvement. As such, therefore any strategic change must focus on two key themes: Is there a need for change? If yes, what's this need and where is this need arising from? Addressing these key questions would help in aligning the strategic intent of change with the desired strategic outcomes of change. It is well acknowledged that changes that are initiated without an accurate analysis of contextual relevance are more likely to fail, as they then would not be aligned with the real needs of the firm (Duck, 2001).

1.1.2 Tobacco Industry in Kenya

Tobacco production was introduced in Kenya in 1907 by British traders. BAT enjoyed being the sole manufacturer of tobacco in Kenya until the 1990s when other manufacturing and tobacco dealing firms entered the market. These companies included Mastermind Tobacco, RJR Reynolds, Cut Tobacco and Island Tobacco.

With new players coming into the industry, BAT faced fierce competition in both the supply and demand chain fronts. The entry of new players resulted in the erosion of the firms' market share and increased suppliers (mainly farmers) bargaining power. The advantages it used to enjoy as a sole manufacturer began to slowly erode and strategies had to change to sustain and grow its business.

The tobacco industry in Kenya has experienced many challenges. Some of the changes include legislation such as banning of smoking in public places, taxation and advertising restrictions. Product counterfeiting, dumping of cheap imports and diversion of export products has been on the increase and continues to threaten the tobacco industry.

1.1.3 British American Tobacco (Kenya) Limited

British American Tobacco Kenya Limited is a subsidiary of the London-based British American Tobacco, a global leader in tobacco processing and manufacturing with interests in over 180 markets. The business was formed in 1902, as a joint venture between the UK's Imperial Tobacco Company and the American Tobacco Company founded by James 'Buck' Duke. (British American Tobacco Corporate report, 2008).

BAT has in the recent past invested over Kshs 1.6 billion in plant expansion and modernization, a move that has seen the plant's capacity improved to make 9,000 cigarette sticks per minute. The company is responsible for the whole line of production from offering farmers the seedlings through harvesting to manufacturing, marketing and distribution of the finished tobacco products. The Kenyan plant processed over 24,000 tons of tobacco in 2011, most of which was sourced from Kenya and the Democratic Republic of the Congo (DRC).

There are various changes in the macro-environment that have necessitated a change in company strategy. The most recent was the Tobacco Bill where the Kenyan government was seeking to ban smoking in public places. If passed into law, this would have serious effects on cigarette consumption, which is currently slightly below half the company's production. Another issue is currency risk given that BAT exports more than half of its production and the sales have to be translated into the local currency whose appreciation against the regional currencies has a negative influence on the reported figures (Market Editor, 2007).

1.2 Research Problem

While traditional rationalistic notions of organizational change are predicated on the need of firms to respond to changing environmental conditions (Thornhill et al., 2000), it is also acknowledged that profound environmental change is occurring with greater frequency and organizations are learning to live with constant change (Nutt, 2001). A range of both external and internal factors are responsible for triggering this change (Senior, 2002). Ivancevich and Matteson (2002) identify technology, economic forces and socio-political and legal factors as important drivers of

organizational change. They argue Sharma, BV, Prasad, DR and Satyanarayana, P. that these forces for change are beyond management's control and cause a significant shock, provoking the organization to adjust internal processes and systems.

Several internal factors are also critical to driving organizational change. Ivancevich and Matteson (2002) maintain that human resource issues and process considerations are the most common forces for change within the organization. They argue that internal factors are generally within the control of management, but can sometimes be more difficult to recognize and diagnose than external factors.

As discussed, various internal and external factors have spurred the need for change management practices in BAT. As a consequence, BAT (K) targets continuous improvements in its cost base that will provide resources to invest in its brands, helping the firm to grow market share and achieve higher returns for its shareholders. This strategy hinges on innovative production practices along the supply chain as well as the firm's internal value chain.

Various studies exist that investigate the issue of strategic change management in various contexts. These include Adieri, (2000) on non-governmental organizations in Kenya.; Mwambingu, (2002) on revenue collection by Kenya Revenue Authority.; Okuto, (2002) on large manufacturing firms in Nairobi.; Mbogo, (2003) on hybrid private public organizations; Hassan, (2004) on oil companies in Kenya.; Mutuku, (2004) on the Kenyan judiciary.; Sikasa (2004) on the mortgage industry; Obat (2006) on fast moving consumer goods industry; Kisingu (2006) on stakeholders involvement in public organizations; and Okiro (2006) on the influence of institutional culture on the implementation of change among others. None of these

this study seeks to address. The research question to be addressed is ‘how does BAT (K) address management to changes in the environment?’

1.3 Research Objectives

The objectives of this study were to determine the management of strategic change techniques employed by British American Tobacco Kenya in response to changes in the local environment. This was achieved by:

- a. Establishing the drivers of strategic change and
- b. Determining factors considered in the management of strategic change practices.

1.4 Value of the Study

In the area of academic research, the study will provide insight into how a global multinational has adapted to its changing macro- and micro-environment. The study will assess how selected theories of change management best explain the practices of the firm and contextualize the theories in light of the findings. Similarly, the study findings will inform commercial research activities which seek to identify areas for improvement of strategic change, with the aim of optimizing shareholder value.

For policy makers, the study findings will provide areas for intervention where barriers exist that BAT Kenya may not be able to address as a firm without getting the necessary Government assistance. Regulations on smoking need take cognizance of the fact that certain individuals will take to using the firms’ products by choice and therefore need be afforded that right to choose.

Finally, the findings of the study will inform management of BAT Kenya regarding the state of strategic change management in their firm. The study findings will identify areas that need improvement. In terms of internal deficiencies, management will be able to identify weak processes that need reviewing and develop training needs assessment for human resources. External environmental inadequacies will be addressed through amendments to strategy that may be so necessitated.

CHAPTER TWO : LITERATURE REVIEW

2.1 Introduction

This chapter introduces management of strategic change processes which include strategic change theory and models, typologies of strategic change, and strategic change management models. Also in the discussion are drivers of strategic change which are split into drivers that enable change initiatives and drivers that impede change initiatives. Practices of strategic change are also discussed.

2.2 Management of Strategic Change

Strategic change could either be anticipative or reactive. Management could foresee the necessity for change and undertake the necessary steps to adjust the firm to meet impending environmental pressures. Or, management could resist change and be forced into an organizational transformation in order to survive.

In formulating anticipative or reactive change processes, Wong (2005) derives the strategic change process into three phases: phase one-strategic change identification; phase two-strategic change prioritization and phase three-strategic change implementation. Whether one adopts an anticipative or reactive approach to strategic change, critical managerial variables are to be assessed including goals and strategies, technologies, job design, organizational structure and people.

2.2.1 Strategic Change Theory and Models

Kee and Newcomer (2008) observe that subsequent to translating change themes into change objectives, performance measures are to be developed for each change objective. Performance management systems, when aligned with organizational goals,

can help in developing and sustaining competencies to facilitate change. They embed continuous feedback, which monitor and evaluate all stages of change implementation to help address implementation gaps in a timely manner. Inadequate measurement systems have been found to be a major reason why change efforts fail (Hacker and Washington, 2004).

The need for change often arises due to the need for effective fulfillment of the existing vision, mission and strategic direction. Alternatively, it may be propelled by a need to redefine the vision, mission and strategic direction in realigning with market realities. This is usually the case with radical, discontinuous and at times revolutionary change which often involves frame bending or frame breaking initiatives (Kee and Newcomer, 2008). However, not every firm is capable of recognizing this need as they may be blinded by their own past successes.

Nadler and Tushman (1989) have called such organizations learning-disabled organizations, incapable of sensing the threats impinging on them. More recently, Hayes (2010) confirms that when insufficient attention is paid to the external drivers for change, it can lead to a strategic drift at the firm level and lack of internal alignment at the unit-level. Further, if unchecked, this often leads to firm decline and death. It thus seems reasonable to claim that even before conceptualizing and articulating the specific change model, firms would do well to acknowledge the needs propelling the desire for change through a comprehensive organizational diagnosis.

In addition to identifying both the explicit and implicit reasons for change, Hughes (2006) proposes a change classification framework comprising clarification of the

nature, context, content, scale, and scope of change. A thorough diagnosis of the organizations unique challenges will raise awareness about current organizational functioning and increase the probability of success of large scale change strategies.

Specifically, diagnoses must include identifying a change strategy that fits with the strategic results the business is aiming to achieve. This will involve a careful study of various change models and approaches to select the most appropriate model (Hayes, 2007). Alternatively, it may involve developing a new model which will best help deliver change.

Theorists argue that traditional mechanistic structures are incompatible with the culture and processes required to execute TQM, which rests on employee involvement and human centered approaches. Ford et al. (2002) related background conversations of change and attributions accorded to change initiatives based on past organizational successes and failures and found it a more important factor contributing to employee resistance than the change itself.

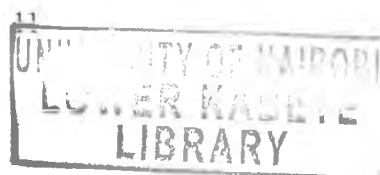
As Kaplan and Norton (2004) observe, organizational capital readiness is the ability of the firm to mobilize and sustain the change process required to execute the strategy. This provides the capability for integration so that individual intangible, human- and information-capital assets as well as tangible, physical- and financial-assets are aligned to the strategy. This would imply that an explicit and effective organizational assessment can help prevent the likelihood of failure in change implementation through proactively managing readiness issues.

In a similar vein, Hayes (2007) proposes that congruence or fit between core internal components of work, people, formal and informal structures and processes is necessary to turn strategy into desirable outputs. Therefore, one must arrive at the best fit depending on the assessment of one's own strategy and assessment of the nature of the internal elements. It may be appropriate to caution here that organizations with strong internal alignments may also pose impediments to change. However, Siggelkow (2001) provides evidence that when confronted with “fit-destroying change”, defined as environmental change that affects both internal and external alignment, organizations with strong internal alignments respond faster to environmental demands.

However, “fit-conserving change”, defined as change that strengthens internal alignment but comprises of incorrect choices with respect to organizational structure, culture, tasks, roles, and policies may reduce adaptability to external challenges thus reducing competitiveness in the long run. This finding supports Hughes (2006) assertion that adaptability of the various structural elements is necessary to strengthen external alignment, a prerequisite for long-term success of any firm.

2.2.2 Typologies of Strategic Change

A widely acknowledged typology of strategic change categorizes forms of organizational change according to different dimensions. The first dimension is the intensity of change, ranging from no change required to radical renewal of the company. In this context, Nadler (1994) differentiates between incremental change, essentially change implemented in a piecemeal fashion and radical change which ramifies the entire company and fundamentally alters the firm's configuration.



The second dimension is the chronological positioning of the change. Here, a difference is made between anticipative and reactive change processes. Anticipative change is where the firm positions itself in advance of the actual change process while reactive change is where the firm responds to changes that have already occurred.

Using the two dimensions, Nadler draws up a matrix that positions the basic types of change in company strategy. In so-called tuning, future environmental developments are anticipated to increase company efficiency. These changes are minor in nature and only serve to increase the fit with the current strategic orientation. In contrast, adaptation means the adaptation of the company to environmental changes after they have already occurred. If the whole company is restructured anticipatively through fundamental transformation, this is thought of as a reorientation. Reactive redesign is when environmental changes that have already taken place are reacted to.

2.2.3 Strategic Change Management Models

Strategic change imposes pressure or force on the firm. The planning process through which management change intervention strategies are identified falls under Organizational Development (OD). OD models are founded upon the principle of achieving consensus and participation between individuals in a firm. OD is a top management-supported, long-range effort to improve a firm's problem-solving and renewal process. It deploys a more effective management of organizational culture with the assistance of a change agent. All this is moderated by the use of the theory and technology of applied behavioral science (Buchanan et al., 2005).

Lewin's force field analysis framework model helps individual managers to analyze change, predict the likely consequences and handle resistance and blockages along the way (Aaltonen and Ikavalko, 2002). Lewin's model assumes that one must strike a balance between the sources of change and forces that resist change.

According to some authors, implicit in the unfreezing-changing-refreezing process is the recognition that the mere introduction of change does not ensure the elimination of the pre-change condition or guarantee that the change will prove to be enduring. Therefore, from a strategic change perspective, management has to determine how the firm will resist change and either increase the driving forces or decrease the resisting forces to have a lasting effect.

The behavior modification intervention is the normative essence of the wider concepts of motivation, reward, learning and organizational culture (Grieves, 2010). This school of thought has its roots in the practices of behavior modification and attempts to understand and reduce complex change processes in the firm to explicit rules, procedures, and strategic actions to deal with all possible contingencies.

Management often uses techniques such as modeling and rewarding appropriate behaviors in order to implement change. The modeling and the rewarding process has to be constant throughout the firm (Grieves, 2010). An important consideration for management is to avoid giving mixed signals to the firm by promoting managers who do not support the change effort.

In order to effectively manage strategic change, the favored structural model propounded by many business schools and practiced in many large companies is that of the decentralized structure coupled with a task or project based culture. This requires managers to work increasingly in multi-disciplinary teams to become generalists as well as functional specialists (Woodward and Hendry, 2004).

Critiquing the literature on organizational change, Pettigrew et al. (2001) commented that change literature has limited itself to a single-snapshot analysis. As a result, the area of research that is most underdeveloped in change literature is in treating change as a process, imperative to offer a holistic and dynamic analysis of changing. It follows therefore that any strategic change, considering its scope, size and complexities must address the complexities of change deployment, before change implementation.

The term “change deployment” is used to mean a change strategy. As noted by Hayes (2007), a change strategy is essentially a plan to make things happen. It needs to address all of the things that have to be done to bring about the change. When developing a strategy, change managers need to attend to each step in the change process and to the way the overall process is to be managed.

Strategic change initiatives such as total quality management, six sigma, and business process re-engineering have structured and step-wise deployment processes which facilitates their implementation. For instance, six sigma's define-measure-analyze-improve-control (DMAIC) cycle involves several tools and methodologies focused on measurable financial returns through a sequential process. These include measurement

system analyses, statistical process control, and capability analyses (Pepper and Spedding, 2010).

Linking theory to practice, Hacker et al. (2001) raise it as a matter of concern that a formalized strategy deployment process is the missing link between strategic planning and implementation. Pettigrew et al. (2001) in their handbook of strategy and management, echo the same thought when they acknowledge a disconnect between the theoretical understanding of strategy and the practical requirements of senior managers, who would require a workable and practical tool that can assist change implementation. Most significant perhaps is the explicit articulation of the strategic plan prior to the implementation of strategy.

Saunders et al. (2008), studied organizations that are focused on excellence to identify leading strategy deployment practices in these organizations. The authors cite significant linkages between both hard practices such as choosing appropriate performance measures, identifying the business drivers for the change, project planning and resource allocation and soft practices such as ensuring buy-in for the initiative through open and constructive communication, and continuous learning.

Two important insights therefore emerge from this discussion. First, any strategic change must explicitly articulate the what, why and when of change and secondly, the strategy must address the needs of multiple stakeholders. A structured, holistic and integrated deployment framework thus developed would help to close the gaps between the strategic intent and strategic outcome of large scale generic transformational changes.

2.3 Drivers of Strategic Change

The features of organizations that make for success are not always the same ones that lead to failure. Based on research evidence, it is possible to identify specific factors that contribute most to success and failure. It is also possible to classify these factors as primarily environmental, structural or management-oriented (Aaltonen and Ikavalko, 2002). Although a successful firm need not possess all of the positive attributes, most successful firms show more positive than negative attributes.

2.3.1 Drivers that Motivate Change Initiatives

Successful firms adapt their structures to the needs of their missions. Highly successful firms often maintain a simple but appropriate structure that employs an adequate number of staff and avoid empire building and padding with surplus staff. Also, entrepreneurship is encouraged within the divisions of the firm by rewarding successful innovation and encouraging risk taking.

Successful firms tend to stress a single dominant value, such as quality products, cost leadership or concern for each customer's unique need to establish a distinct reputation for excellence. Managers in successful companies often work together with their staff to set mutually agreeable performance goals (Grieves, 2010).

A major management feature that can lead to success is a deliberate bias toward implementing solutions to problems. Management discourages "paralysis through analysis" of alternatives, and, instead, emphasizes satisficing action that ensures goal attainment (Woodward and Hendry, 2004). Successful firms show commitment to the firm's original arena of expertise. It involves staying close to what the firm knows

how to do best and not being led down different paths in pursuit of attractive but uncertain alternative product lines.

2.3.2 Drivers that Impede Change Initiatives

Different factors in a firm's environment, structure, and management could lead to its failure (Aaltonen and Ikavalko, 2002). Among the environmental factors, change in technology is a major cause of organizational failure. Technological innovations by competitors, as well as innovations that cannot be implemented within the firm itself, can lead to lost business. Two forms of dependency - dependency on suppliers and dependency on a single customer-can also create problems. Difficulties in obtaining inputs and financing from other institutions can prove fatal for a firm in a competitive environment. In addition, a customer who realizes that another firm is highly dependent on its business may use its resulting power to drive down prices or extract greater concessions by threatening to take its business elsewhere.

In terms of structure, inadequate control mechanisms may contribute to failure. For example, a firm may lack devices for sensing when changes occur that need to be corrected. As a result, product quality may suffer or change in employee or customer satisfaction levels may be ignored (de Wit and Meyer, 2004). Management factors may also contribute to failure. Courageous and decisive leadership can inspire a firm to overcome difficult situations or take quick action. In contrast, a tendency to overanalyze data or to take a "wait-and-see" attitude may cause a firm to lose ground to competitors and may exacerbate internal problems. The kinds of expertise that enables young organizations to thrive may become outdated as they mature. The need for professional managers to aid, or replace, the founding group may go

unrecognized, and the importance of hiring new talent to revitalize the innovative process may be ignored.

Conflict can lead to serious dysfunction if it is not well managed. Conflicting groups often sub-optimize or set their own goals for political and personal gain ahead of organizational goals. For this reason, conflict should be managed to ensure that it remains in desired forms and at desired levels (Woodward and Hendry, 2004). Success and failure factors are not evenly distributed across the three major sources. For example, more environmental factors may contribute to failure than to success. Conversely, more structural factors are potential sources of success than of failure. And an almost equal number of management factors seem to lead to both success and failure.

According to Ford et al.(2002), organizations tend to resist change unless the change is critical to the organizations' existence. The resistance usually manifests itself as a result of the organizations' politics and defensive routines. Ideas that challenge accepted assumptions, values, and norms regarding business strategy and management practice cannot be discussed openly among key actors. Lacking the capacity for open discussion, top management cannot arrive at a shared diagnosis. Other authors have suggested that senior management needs to articulate a crisis situation in order to lessen the resistance to organizational change. To succeed, senior managers need to communicate a sense of urgency, or as some have stated they must build a burning platform for change.

Furthermore, to support this point, the resistance of middle managers and first-line supervisors is frequently identified as a major implementation barrier (Huq, 2005). Middle managers feel threatened due to the fear of losing their jobs and also due to the pressure that is applied by senior management in order to redefine their role from directing to coaching and counseling. A method to minimize the resistance to change may best be introduced piecemeal: The fewer the number of employees affected from the outset, the less the resistance to change and the greater the overall effectiveness of the intervention.

This analysis, albeit simplistic, suggests a useful insight: environmental factors are more likely to pose potential threats to a firm's well-being, while structural factors are a firm's major means of achieving success or, at least, coping with threats. Management-related factors are potential sources of both organizational success and organizational failure (Huq, 2005).

2.4 Practices of Strategic Change

2.4.1 Organizational Goals and Strategies

In many organizations, the vision, mission and goals are not adequately articulated. An organization needs to understand the strength of its internal capabilities to properly communicate a vision and mission to its employees. The evolution of an organization's leadership skills (e.g. technocratic versus "intra-preneurial"), training programs and investment capabilities will determine how the latter will set its goals and strategies.

The degree to which management sets goals and strategies to change the organization is contingent upon the organization's historical goal setting process success in implementing change (i.e. learning from past mistakes). Unrealized past goals, poor communication to lower levels of management and lack of commitment from top management may impede the change process (Hayes, 2007).

Other researchers have proposed that strategic change and goal setting will be influenced by how a decision maker perceives issues related to the change strategy. Through the combined effects of perceived attributes of an issue (magnitude, abstractiveness, simplicity, immediacy) and the political foundation of an issue (personal stake), goal setting will become part of an agenda-building process that will foster organizational change (Hayes, 2010). Leadership will affect how decision makers pursue this agenda building process.

2.4.2 Management Practices and Organizational Culture

Strategic change must also foster new management practices that are conducive to the achievement of the organization's new mission and strategy. Management practices could involve new job designs, interconnection between people and organizational processes, and the rules and principles (or culture) that govern how people do their work. When people are not motivated to do their jobs or do not understand how their job fits in with the larger goals of the organization, there is a "system disconnect" that needs to be addressed if the organization is to be successful in moving forward with change initiatives (Hacker and Washington, 2004).

In job design, as an example, one suggested approach is to make certain that the individual workers in the organization have some authority and accountability built-in into their jobs and that these elements are congruent with the new organizational strategies. The rules governing the organization or its culture might include its beliefs and values (e.g. conservative to innovative), its leadership approach (e.g. instructive, consultative, participative), unwritten rules (discipline, socialization, tolerance for ambiguity) and its external orientation (focus, planning attitude - from short-term to long-term) (Grieves, 2010).

The extent to which these organizational cultural elements can assist managers in implementing strategic organizational change will explain their potential to contribute to the organization's success. It has been suggested that organizations try to establish a link between the above cultural elements and some critical success factors such as continuous improvement, customer service orientation, cost consciousness, quality, teamwork and people orientation (Woodward and Hendry, 2004).

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology that was used in gathering and analyzing data. The aim was to explain the methods and tools to be used to collect and analyze the data related to the subject under study.

3.2 Research Design

The study adopted a case study design and sought to determine the state of management of strategic change practices in BAT Kenya. The study did not seek to establish causal relationships among the variables and thus, did not seek to answer the question 'why', thus distinguishing the study from explanatory research.

A case study is a research method based on an in-depth investigation of a single individual, group or event. Case studies should not be confused with qualitative research and they can be based on any mix of quantitative and qualitative evidence (Bryman and Bell, 2003).

The essence of a case study, the central tendency among all types of case study, is that it tries to illustrate a decision or set of decisions: why they were taken, how they were implemented, and with what result. Bryman and Bell (2003) note that the case study is mostly associated with qualitative research method to study organizations.

3.3 Data Collection

Researchers rarely survey the entire population for two reasons (Adèr, Mellenbergh and Hand, 2008): the cost is too high and the population is dynamic in that individuals making up the population may change over time. In sampling, this includes defining the population from which the sample is drawn (Chambers and Skinner, 2003).

Interview guides were designed and administered to key managers in BAT Kenya Ltd. The interview guide comprised both open ended and closed questions. Mugenda and Mugenda (1999) note that open ended questions allow for a greater depth of response. Satyanarayana (1983) notes that interviewing is an appropriate instrument in any study because it helps the interviewer to cover all the dimensions of the investigation through probing of the respondents. Given that the study is an in-depth investigation of a single institution, a sample size of 6 respondents was considered as sufficient.

3.4 Data Analysis

Data analysis involves organizing, accounting for and explaining the data; that is, making sense of the data in terms of respondents' definition of the situation noting patterns, themes, categories and regularities. All analysis was executed using content analysis. Data generated through the interview guide was transcribed into written texts and examined for completeness and relevance in order to ascertain its usefulness, adequacy and credibility in answering the research questions.

Kothari (1990) observes that content analysis is the systematic qualitative description of the composition of the materials of the study. Its purpose is to analyze given information in order to determine factors that explain a given phenomenon. The information gathered was analyzed to seek insights regarding management of strategic

change in BAT Kenya. The information provided was organized into the respective themes and concepts from which generalizations were formulated and interpretations and comparisons made in line with established theories.

CHAPTER FOUR : FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter was dedicated to discussing the findings of the research in relation to the objectives of the study. Just to recap, the research objectives were to establish the drivers of strategic change and determine the factors considered in the management of strategic change practices. In order to attain these objectives, a case study research was conducted. The research instrument used was a 5-page interview guide administered by the researcher. The guides were mostly well filled out but had some questions left unanswered.

4.2 Information on the Respondents

Of the six senior managers who responded, five indicated their functional titles. Two of the manager's did not specify their departments but the others were the marketing manager, the Head of Finance East African markets, and the Human Resources Business Partner (HRBP). These individuals had worked for periods ranging from 12 to 16 years in the firm. This length of service was considered sufficient for purposes of understanding and disseminating the scope and depth of strategic change management in BAT.

It is imperative that senior management be involved in the strategic change management process. As Duck (2001) argues, exceptional change leaders are the ones who realize that their legacy lies not in a single transformation, but in teaching their firm to perpetually adapt to a changing world. Of the respondents, two, whose

functional title was 'manager,' were not involved in the strategic planning process at BAT.

Only four of the respondents actually sat in the policy committee responsible for strategy formulation. In the strategic planning process, the marketing manager was responsible for driving the marketing strategy planning process, proposing strategy and getting business buy-in. The Head of Finance for East African Markets was responsible for macro-economic analysis, industry analysis, SWOT analysis, regulatory change, pricing and excise, competitor reviews, reviewing the role of end markets, and conducting full market potential reviews. The HRBP was involved in the process where the firm gathers assumptions to plan for the next 2, 3, or 5 years. Other responsibilities among the respondents included development of strategic brand plans and the annual planning process.

All these individuals reported noticing changes in the business environment that have affected the operations of BAT. The changes included Government restriction on smoking, heavy taxation of tobacco products, growth of the middle class, enactment and enforcement of tobacco control regulations, excise changes, trade bloc evolution and Government revenue pressures.

Other changes included change in the regulatory environment restricting the business environment on what can or cannot be done from a marketing perspective including legislation governing the sale, packaging and advertising of cigarettes. Finally, respondents also noted that the competition act, the legislation that governs how

competitors fight for customers in the market, has influenced operations in the industry.

4.3 Management of Strategic Change Techniques in Response to Changes in the Local Environment

4.3.1 Strategic Change Management Types

All four strategic change management practices as identified by Nadler (1994) were found to be in use at BAT. Tuning and adaptation were instances of incremental change that the firms engaged in order to maintain its contextual relevance in the gradually changing macro-environment. Future environmental developments were anticipated to increase company efficiency (or *tuning*) through inclusion in the long term strategic plan.

Events that necessitated this included economic growth, general elections and trends in regulation. Information that triggered the need for anticipating future environmental developments was obtained through insight and research, to anticipate and understand future changes. Information was also generated through scenario planning and learning from other markets and industries. The end results were proactive plans aimed at increasing efficiency.

Adaptation of the company to the environmental changes after they have already occurred was largely effected through change management schemes, revision of internal policies and plans to meet new change demands. This was achieved through monthly Effective Market Forecasts (EMF) processes and annual strategy review. This is where various strategies are identified and assimilated in the business through quarterly business reviews that take into consideration changes in the business

environment. Tuning and adaptation are examples of what Wong (2005) terms as anticipative approaches to strategic change.

On the other hand, re-orientation and reactive redesign may be classified as reactive strategies as per Wong's (2005) categorization. This is because they entail wholesale responses to macro-environmental change that may be a consequence of the firm's inability to respond in a gradual sense. Profound environmental change is occurring with greater frequency and organizations must learn to live with constant change. Where there is a strategic gap so vast that change is not factored in, then the firm undergoes a strategy 'shock' that may demand radical re-design of the firm's business vision and mission.

Reorientation or wholesale restructuring in anticipation of future environmental change in BAT was done through establishing new ways of getting products to the market. This entailed reviewing the route to market models (how the product reaches the final consumer), restructuring their distributors model and profit margin changes. The marketing department was restructured in line with anticipated legislation significantly affecting the environment due to greater government regulation on smoking. Alternatively, if a new competitor came in, then the firm was prepared to beef up its structure to maintain competitiveness. Reorientation was carried out where long term benefits were foreseen to accrue to the company e.g. closure of some factories in the region to concentrate on ones that had economies of scale.

Reactive redesign or wholesale restructuring in response to change that had already occurred was seen to be effected through incentive schemes, performance based incentives, and in response to market changes. Also, the firm had right-sized in order

to remain competitive and meet increased demand. Re-structuring was adopted where the changes in question had a significant immediate reaction to changes in core business fundamentals like market share and profitability which would compromise future sustainability.

4.3.2 Establishing the Drivers of Strategic Change

In all strategic change management efforts, critical managerial variables are to be assessed. These include goals and strategies, technologies, job design, organizational structure and people. According to Kee and Newcomer (2008), these key variables or what are termed the vital few, need to be monitored. They constitute critical milestones that inform on whether or not the organization is achieving its stated strategic objectives. Therefore, the need for well concretized business performance measures, which operationalize these strategic goals.

In BAT, performance measures put in place included bonus and promotions, along with the alignment of individual performance objectives to firm strategy or line of sight. These influenced resource allocation (people and budgets) and corrective action where performance was below expectation. Performance measures were seen to drive change in BAT through driving objectivity and ensuring that everyone was aligned to the strategic leadership agenda. Performance measures helped in aligning all employees to the desired change by holding them accountable at all levels of the firm. Strategic planning is another critical driver of change through which the firm determined its change objectives (Hacker et al., 2001). Formal strategic planning was seen to drive change in BAT through the business planning process where new business strategy requirements were included at quarterly reviews. This was seen to

give a long term perspective to the business beyond the monthly EMF and annual budget process. Formal strategic planning ensured that the business was focused in identifying the right opportunities to maximize growth and sustainability. Strategic planning is managed through a global planning process where the global HR provides the strategic direction and this was localized at regional, area and end-market level.

Adopting strategies based on behavior modification in order to align human resources towards the desired change objectives drove change in BAT through action planning that followed employee opinion surveys. This was done through the firms 'winning as a team' strategic pillar through which the firm drove its performance. This ensures ownership and accountability of various members of the team and departments. Rewards (monetary and non-monetary) were bestowed on those that exhibited the desired behavior.

This is in keeping with the observation by Grievies (2010) that behavior modification intervention such as rewarding appropriate behaviors is an appropriate tool for supporting the change effort. These interventions are directed towards reinforcing attitudes and actions in line with the overall change strategy. Grievies cautions though that it is important that these strategies be explicitly directed at those individuals who out rightly enhance change in the firm to avoid sending mixed signals.

Adoption of a learning organization approach, managing through analysis and adaptation, drove change in BAT through business process benchmarking that resulted in strategy evaluation and review. Competitive benchmarking is important as firms would then be able to benchmark with respect to their competition (Thornhill et al.,

2000). They can then utilize the findings of the benchmarking exercise as input during strategic planning.

Overall, adoption of a learning organization approach ensured that BAT had the right level of competence and authority. Firms need to pay attention to internal and external parameters that influence change. Lack of a learning approach as observed by Hayes (2010), leads to strategic drift across the firm. One respondent emphasized that PRINCE 2 project principles are used whenever key processes are being reviewed/changed to ensure that learning's are documented for future reference.

PRINCE 2 is a project management methodology involving continued business justification that entails learning from experience, defined roles and responsibilities, management by stages, management by exception, a focus on products and tailoring to suit the project environment. Documentation is an important TQM tool which ensures proper tracking of internal parameters such as processes and performance.

Articulation of strategic change within the firm, encompassing both feed-forward and feedback loops was seen to drive change through frequent business briefs where change was articulated. This entailed quarterly business briefs to the management team. Articulation of strategy ensured commitment and helped build bottom-up buy-in of strategy matter. Articulation of strategy was also effected through a coaching culture and mentoring, that was part and parcel of the firm. This was effected through meeting schedules that were aligned from the global headquarters to the end-markets.

The attitude in BAT towards articulation of change is key to ensuring success. Articulation of strategy, as observed by Pettigrew et al. (2001), creates ownership, acceptance and ultimately, commitment to the change initiative. This, in turn, greatly

enhances strategy deployment and reduces resistance to the change effort. In particular, articulating strategy helps to bridge the divide between strategy formulation and implementation. It assists with the interpretation of strategy in practical business terms and reformulation into practical business-unit objectives.

Conducting general change readiness assessments to illuminate aspects that affect change on a daily basis and determine staff readiness to accept change was another strategy used to drive change. This was done through change management planning during specific planned change initiatives. This aspect helped build a culture that was adaptive and that reduced resistance to change in the firm. Change readiness assessments were done through business continuity plans and proper handover processes in place. Change management aspects were part of the project work streams that ensured buy-in was gotten at all levels of the firm.

Constantly assessing and reviewing management variables critical to change success was reported by one respondent as happening every four years. These variables include organizational structure, technology, goals/objectives, and job design. This was reported as being the responsibility of the functional and area leadership team on a need basis. This function ensured that the firm had a structural fit with its business environment. One respondent observed assessing and reviewing management variables was done through a meeting schedule that was aligned from the global strategy to the end-markets.

Change readiness assessments and constant review of variables critical for success are important elements in the preparation to embrace strategic change. These two drivers of change enable acknowledgement of the needs propelling the desire for change

through a comprehensive organizational diagnosis, as argued by Hayes (2010). These also help in identifying both the explicit and implicit reasons for change and raises awareness about current organizational functioning as well as increasing the probability of success of large scale change strategies.

An additional strategy used to drive change in BAT was determining how the firm would resist change and either increase the driving forces or decrease the resisting forces to have a lasting effect. According to the respondents, this was done through ensuring that there was individual and collective leadership. It was also important to ensure that change management aspects were part of the project work streams to ensure buy-in was gotten at all levels of the firm.

Multiple drivers are actually employed in order to reduce resistance to change. These include articulation of strategy (Pettigrew et al., 2001), change readiness assessments (Hayes, 2010), and force field analysis (Aaltonen and Ikavalko, 2002). This latter aspect involves projecting how the firm would respond to any attempted change and developing risk mitigants that would pre-empt any potential adverse effects. All, in all, it was important to ensure buy-in at all levels of the firm, through deploying the various drivers.

Devoting effort to optimizing the relationship between the social (people) and technical systems in BAT was used to manage change through line assessment. This ensured that new systems were easily understood and adapted. This was also achieved through ensuring that change management aspects were part of the project work streams to ensure buy-in was gotten at all levels of the firm.

As observed by Kaplan and Norton (2004) earlier, this enhances the ability of the firm to mobilize and sustain the change process required to execute the strategy. It helps to integrate and harmonize the 'soft-systems' or people-ware aspects with the 'hard-ware' or systems aspect, ensuring a seamless integration of the two.

This aspect was also complemented through ensuring buy-in by adopting practices linking multiple stakeholders and multiple processes implementing change through cross-functional teams. This was achieved through the sales and operations planning at the start of the year plus the annual bonus scheme. It ensured that there was individual and collective understanding of the various business processes.

Flexible organizational processes were deployed for change management through process re-design on a need basis, driving flexibility and adopting new ways of doing business without compromising performance. In this respect, change management aspects are part of the project work streams to ensure buy-in is gotten at all levels of the firm.

Proactive organizational design to develop viable formal structures, processes, systems, roles and relationships involved process redesign on a need basis. This was built into the annual planning process and ensured that the business was able to adapt well to changes in the environment. All this was assisted through using formal strategic change tools such as TQM and six sigma. As noted by Pepper and Spedding (2010), these tools help to formalize and breakdown the change process into manageable steps. BAT has a 4-pillar strategic house which ensures strategy is balanced between growth, productivity, responsibility and a winning organization.

Each is interdependent and essential for delivering profit growth and long-term business sustainability.

4.3.3 Factors Considered in the Management of Strategic Change Practices

In this section, factors that determined which change management practices were used and their level of importance were determined. In all cases, competitor challenges were considered as very important determinants of what change management practices to deploy in the industry. This, according to one respondent was “important (because it) ensures you are more competitive in the market and able to drive your business sustainably.”

According to Aaltonen and Ikavalko (2002), among the environmental factors, change in technology is a major cause of organizational failure. Technological innovations by competitors, as well as innovations that cannot be implemented within the firm itself, can lead to lost business. In particular, information and technology was rated as important among the respondents. This function was driven largely by the BAT group IT strategy and it ensured that the firm was able to perform more effectively by adopting state of the art cost effective systems. Therefore, there is a need to monitor competitor action to ensure sustainability of a firm’s action.

Backward integration that entailed creating closer links with farmers and other suppliers was rated from medium to high importance, especially given the firms leaf growing operations. Aaltonen and Ikavalko (2002) further argue that dependence on key suppliers and customers can create problems. This is because a customer who realizes that another firm is highly dependent on its business may use its resulting



power to drive down prices or extract greater concessions by threatening to take its business elsewhere.

Insistence on good corporate governance/social responsibility was used to determine which change management practices to use and was rated as being extremely important. One respondent commented that “this is super-important for BAT Kenya being a listed company on the NSE and operating in a controversial economy”. Another responded that this was important since “the industry is increasingly being regulated and this is important in stakeholder management”. Strong levels of corporate governance act as differentiators that help to position BAT products in a global marketplace. Hence its ‘super-importance’ in taking a lead strategy when shaping BAT global market approach.

Greater inter-dependence among world economies was widely rated as being of medium importance. The reasons cited were that BAT globally was working on an “above market” basis and optimizing on trading blocks. It also ensured greater leverage of skills and economies of scale such as cultural sourcing and shared service centers. The need to diversify suppliers and customers to avoid dependency on any one source were rated from medium to high importance. BAT Kenya was actually moving in the opposite direction, rationalizing customers and suppliers in order to simplify the business. BAT globally was focused on growth in markets with potential in order to avoid reliance on current sources of volume and profit. This ensured future sustainability, best and competitive sourcing and gave the firm muscle to adapt where contingencies referred.

CHAPTER FIVE : SUMMARY, CONCLUSION AND

RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, draws conclusions relevant to the research, and makes recommendations on the same.

5.2 Summary

The study had two objectives, namely, establishing the drivers of strategic change and determining the factors considered in the management of strategic change practices.

With respect to the drivers of change in the firm, BAT demonstrated well concretized business performance measures, which operationalized the strategic goals. Formal strategic planning drove change through the business planning process where new business strategy requirements were included at quarterly reviews. Adopting strategies based on behavior modification towards desired change objectives drove change in BAT through action planning that followed employee opinion surveys. This was done through the firms 'winning as a team' strategic pillar through which the firm drove its performance.

Adoption of a learning organization approach drove change in BAT through business process benchmarking that resulted in strategy evaluation/review. Overall, adoption of a learning organization approach ensured that BAT had the right level of competence and authority. Articulation of strategic change within the firm was seen to drive change through frequent business briefs where change was articulated and feedback sought, quarterly business briefs to the management team, a coaching culture as well as mentoring. Conducting general change readiness assessments to illuminate aspects

that affect change on daily basis and determine staff readiness to accept change was done through change management planning during specific planned change initiatives.

Constantly assessing and reviewing management variables critical to change success was reported as happening every four years. This was the responsibility of the functional and area leadership team on a need basis. This function ensured that the firm had a structural fit with its business environment. Determining how the firm would resist change and either increase the driving forces or decrease the resisting forces was done through ensuring that there was individual and collective leadership. It was also achieved by ensuring that change management aspects were part of the project work streams to ensure buy-in at all levels of the firm.

Devoting effort to optimizing the relationship between the social (people) and technical systems in BAT was used to manage change through line assessment. This ensured that new systems were easily understood and adopted to. This aspect was also complemented through ensuring buy-in by adopting practices linking multiple stakeholders and multiple processes implementing change through cross-functional teams.

Flexible organizational processes were deployed for change management through process re-design on a need basis, driving flexibility and adopting new ways of doing things without compromising the business performance. In this respect, change management aspects are part of the project work streams to ensure buy-in is gotten at all levels of the firm. Proactive organizational design to develop viable formal

structures, processes, systems, roles and relationships involved process redesign on a need basis. This was built into the annual planning process and ensured that the business was able to adapt well to environmental changes. All this was assisted through using formal strategic change total quality management.

Regarding factors that determined which change management practices were used and their level of importance, competitor challenges were considered as important determinants of what practices to deploy in the industry. This was so since it ensured increased market competitiveness and sustainability. Creating closer links with farmers and other suppliers was significant given the firm's leaf growing operations. Information technology was a critical change determinant as it ensured the firm was able to perform more effectively by adopting cost effective systems.

Insistence on good corporate governance/social responsibility was used to determine which change management practices to use. Greater inter-dependence among world economies was seen from the perspective of working on an "above market" basis through optimized trading blocks. The need to diversify suppliers and customers to avoid dependency were important considerations. This was through rationalizing customers and suppliers to simplify the business, pursuing growth in potential global markets to avoid reliance on single sources of volume and profit.

5.3 Overall Conclusion

From the findings of the study, BAT is one firm that is very responsive to changes in the business environment. Adaptation to change is reflected at the micro- and macro-business levels. The firm demonstrated well concretized business performance

measures, formal strategic planning strategies, and strategies aimed at aligning human resources towards the desired change objectives. A learning culture approach drove change through business process benchmarking that resulted in strategy evaluation/review.

The strategic change management process was characterized by communication of strategy encompassing both feed-forward and feedback loops. Conducting general change readiness assessments to illuminate aspects that affect change on daily basis and determine staff readiness to accept change was also done through change management planning during specific planned change initiatives. The firm was also involved in constantly reviewing its micro- and macro-environment with a view to change planning and management.

5.4 Limitations of the Study

Owing to contextual differences between firms relating to the practice and effectiveness of change management practices, the findings of this study may not be generalized in the tobacco industry. Additionally, this will be influenced by the political context of their countries of origin. BAT, as a global multinational, will have different policy and management tools compared to firms that are locally incorporated such as Mastermind Tobacco.

Additional limitations arose as a consequence of challenges faced during data collection. This included misinterpretation of questions in some cases.

5.5 Recommendations

Most of the approaches used in strategic change management are imitable by competitors and may thus not be sustainable sources of competitive advantage. As such, it is important to emphasize on those that do. Resources and energy may therefore be heavily focused in the human resource component which is largely difficult to imitate. Through creating the social acceptance for change in the organization, it is possible to leverage all other parameters around this facet. Thus, the human capital of the firm, through the knowledge management approach, becomes its critical competitive weapon.

5.6 Areas for Further Research

Given that strategic change management is a multi-dimensional concept encompassing many concerns, opportunities for research are many. Some of these may entail analyzing the applicability of various change models in BAT as well as the wider tobacco industry. Such models include Kotter's strategic eight-step model for transforming organizations, Jick's tactical ten-step model for implementing change and the General Electric (GE)'s seven-step change acceleration process model. The three models have stood as exemplars in the change management literature. The virtue in deploying these models is that analysis can be used to benchmark a firm's position regarding change management achievements against a widely acceptable reference. This in turn helps to point out gaps in implementation that can then be addressed.

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APPENDIX 1

Letter to the Respondents



University of Nairobi

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P.O. Box 30197,

Nairobi, Kenya

Telephone: +2542-318262

Telegrams: "Varsity",

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Dear Sir/Madam,

To Whom It May Concern

The bearer of this letter: Bernard Maina Mbuthia

Registration Number: D61/P/8029/04 Telephone: 0722 517 566

Is a Master of Business Administration (MBA) student at the University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your firm to this end. The results of the report will be used solely for purpose of the research and in no way will your firm be implicated in the research findings. A copy of the report can be availed to the interviewed firm on request.

Thank you,

The Coordinator, MBA program

APPENDIX 2

Interview Guide

Part 1:

1. Indicate your functional rank in B. A. T

2. How long have you worked at B. A. T?

_____ Years

3. Are you involved in the strategic planning process in B. A. T?

Yes; No

4. If your answer to **question 3** is 'Yes', briefly describe these process.

5. Have you noticed changes in the business environment that have affected the operations of B. A. T?

Yes; No

6. If your answer to **question 5** is 'Yes', briefly describe these changes.

Part 2:

7. Briefly describe how the below strategic change management types are applied at BAT?

a. *Tuning*-future environmental developments are anticipated to increase company efficiency

b. *Adaption*- adaptation of the company to the environmental changes after they have already occurred

c. *Reorientation*-wholesale restructuring in anticipation of future environmental change

d. *Reactive redesign*-wholesale restructuring in response to change that has already occurred.

1. Briefly describe how the below management practices drive change at

B. A. T.?

a. Performance measures

b. Formal strategic planning

c. Adopting strategies based on behavior modification in order to align human resources towards the desired change objectives

d. Adoption of a learning organization approach-managing through analysis and adaptation

e. Articulation of strategic change within the firm, encompassing both feed forward and feedback loops

f. Conducting general change readiness assessments to illuminate aspects that affect change on daily basis & determine staff readiness to accept change

g. Constantly assessing and reviewing management variables critical to change success e.g. organizational structure, technology, goals/objectives, job design etc

h. Determine how the firm will resist change and either increase the driving forces or decrease the resisting forces to have a lasting effect

i. Devoting effort to optimizing the relationship between the social (people) and technical systems of the firm

j. Ensuring buy-in through adopting practices linking multiple stakeholders & multiple processes

k. Flexible organizational processes

l. Force field analysis aimed at identifying key change drivers & key change inhibitors

m. Proactive organizational design to develop viable formal structures, processes, systems, roles and relationships.

n. Using formal strategic change tools e.g. TQM, six sigma etc

1. Please describe the level of importance of the below factors in determining which change management practices are used.

a. Competitor challenges

b. Backward integration-creating closer links with farmers and other suppliers

c. Information and technology

d. Insistence on good corporate governance/social responsibility

a. Greater inter-dependence among world economies

b. Need to diversify suppliers & customers to avoid dependency on any one source

Thank You for Your Co-operation and Assistance