

**STRATEGIC RESPONSES OF BRITISH AMERICAN
TOBACCO KENYA LTD TO CURRENT
ENVIRONMENTAL CHALLENGES.**

By:

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A Management Research Project Submitted in Partial Fulfilment
of the requirement for the M.B.A Degree, Faculty of Commerce,
University Of Nairobi

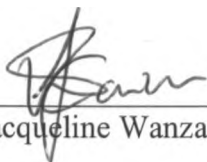
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DECLARATION

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

Signed:



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Date:

31/10/2003

This project has been submitted for examination with my approval as the University Supervisor.

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6/11/03

DEDICATION

To my teachers throughout the years of my formal education. What you have invested cannot be quantified. Thank you for your hard work, dedication and patience, all of which helped inspire me to be the best of me, your efforts are sincerely appreciated.

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And finally to God Almighty, who brought all these people my way for this purpose and has seen me through it.

ABSTRACT

British American Tobacco Kenya is the leading tobacco manufacturing firm in Kenya, which has been operation in the country since 1907 and currently commands an estimated 71% of the market share of the tobacco industry. In the year 2002, they recorded a gross turnover of 9.4Billion shillings with a profit after tax of 823 million shillings, contributing estimated 4.5billion shillings to government in form of taxes. From these results, it can be seen that the firm has been successful in its operations in Kenya. It has however been operating in a business environment that has faced various challenges such as the extended economic slump, competition, and government fiscal and legislative policies among other challenges that have been discussed in detail in this study.

The main motivation for this study on the strategic responses of British American Tobacco Kenya to environmental challenges is based not only on its successful performance over the years and the professional business image, enabling it earn the status of the to ten most admired firms in East Africa, but also on the fact that it is operating in an increasingly controversial industry that is facing opposition from various lobby groups, top on the list the health groups due to the health risks associated with smoking. This study has outlined the current environmental challenges that the firm is facing together with those issues unique to the tobacco industry, their effects on the firm and the strategic responses that have employed in managing the environmental challenges. One of the interesting strategies being employed in managing the challenges from pressure groups is the social reporting initiatives, which will begin in 2003. This will be through the process of meeting a cross section of the company's stakeholders in a series

of dialogue sessions where their views will be collected and responses made. This will be done in the presence of an independent audit company Bureau Veritas to ensure that the meetings are carried out in a transparent manner and that they are free from bias. Such an initiative is one of its kind in this country by profit making corporate and is commendable demonstrating its leadership in Corporate social responsibility.

Also outlined in this study is the company's overall mission and vision statements, and thus deriving its strategic intent and key strategic priorities together with its core business. There is also a brief historical background on the company, how the firm is governed and how its responsibilities are divided including a list of its current major shareholders.

This study has been an interesting one in outlining the strategies employed by British American Tobacco Kenya in managing the current environmental challenges. The business of British American Tobacco is not about persuading people to smoke; it is about offering high quality brands to adults who have already taken the decision to smoke and it is their strong belief that smoking should only be for adults who are aware of the risks. They have managed to be successful thus far in managing environmental challenges due to their open-minded attitude and thus strategic responses to these challenges. The future of the business will depend on how well they are able to adjust their business operations to the volatile environment.

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1.1 Background

According to Pearce and Robinson (2000), managing activities internal to the firm is only part of the modern executive's responsibilities. He must also respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations, and customers whose preferences often shift inexplicably. The remote external environment comprises of economic, social, political and technological developments, all of which must be anticipated, monitored, assessed and incorporated into the executive's decision making.

The executive is also compelled to subordinate the demands of the firm's internal activities and external environment to the multiple and often inconsistent requirements of its stakeholders who include; owners, top managers, employees, communities, customers and country. To deal effectively with everything that affects the growth and profitability of a firm, executives employ management processes that they feel will position it optimally in its competitive environment by maximizing the anticipation of environmental changes and of unexpected internal and competitive demands.

It is generally accepted in the business environment to talk about constancy of change and that the old certainties of planned growth, predictable sales and stable markets no longer exist

(Morris and Brian 1996). This is due to the increase in competition within industry, rapid technological change, changing consumer preferences and government regulation.

This leads to the evolution of strategy in organizations. Strategy answers the "how" question in organizations. Organizations or businesses are set up to accomplish certain objectives with an overall mission and vision. An increasingly volatile environment affects these objectives. Since organizations are environment serving open systems meaning that they are interdependent with the environment, then strategy employed also known as strategic response in organizations need to take into account the environment within which it is operating for it to be most effective.

The Kenyan Business environment is no exception to the patterns witnessed in the world. It has been changing over the years with the liberalisation of the economy, globalisation, price decontrols in the early 90's together with privatisation of several government corporations. The fiscal policy has also been changing from year to year with the introductions of Value added tax in 1989, changes in corporation and individual taxes, excise taxes, all of which impact an organisations operations and profitability. The economic growth rate has gradually declined from a high of 6% in the 1960's to 1.2% in 2001 and 1.3% in 2002 (Xinhunet, 2003). Changes in the Kenyan environment have put pressure for change within organisations in Kenya irrespective of the sector in which they operate. The changes are pervasive, discontinuous and inescapable. Organisations being environment dependent have to constantly adapt their activities and internal configurations to reflect the new external realities and failure to do this may put the future success of an organisation in jeopardy (Aosa 1998).

The Kenya Tobacco industry is one of the fast growing industries in Kenya where coffee and tea have reigned supreme. Press sources estimate that the tobacco industry employs directly or indirectly over 600,000 people (The Daily Nation, May 30th 2003). According to Phombeah (2000), it is estimated that of the thirty million people in the Kenya, five million are smokers. Cigarette marketing is bolder and more aggressive in developing countries than it is in the developed world. Cigarette advertising on radio and television is common, and a variety of other avenues are exploited such as sports promotions for example during safari rally, street jams and other consumer promotional competitions.

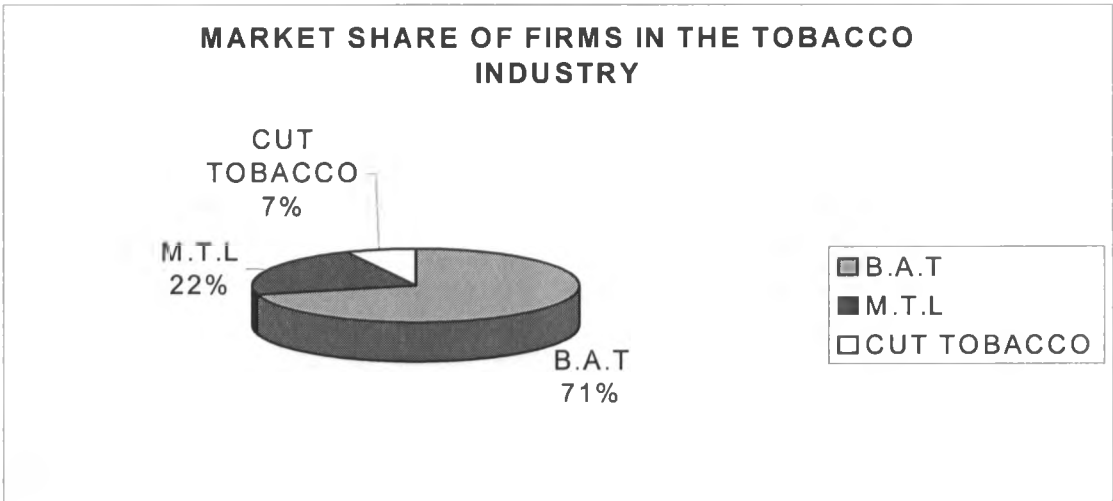
This paper will seek to outline the current environmental challenges that have affected British American Tobacco Kenya Limited (BAT (K)) and how it has responded to these challenges to ensure sustained competitive advantage over other tobacco firms in Kenya.

1.2 British American Tobacco Kenya Ltd

British American Tobacco Kenya Ltd presence in Kenya dates back to 1907. It opened a factory in Kenya in 1957 and in 1978 opened the Thika based Green Leaf Threshing plant to process tobacco for local consumption. By the year 2000, it had a market capitalisation of seven billion Kenya Shillings. Previously tobacco popularly referred to as "mbake" was chewed or inhaled directly by mainly the elderly in society as a past-time activity. British American Tobacco is estimated to employ over 80,000 people globally and contributes £14 billion a year to national exchequers world-wide through excise duties and taxes. Its home office is based in Britain with several Strategic business units world-wide. It has dominated the Kenyan market more as a

monopoly over the years until the late 90's when other firms such as Cut Tobacco and Mastermind Tobacco started infiltrating into the Kenyan market.

FIGURE 1: Market share of firms in the tobacco industry in Kenya



SOURCE: The East African 17th March 2003.

Key:

M.T.L-Mastermind Tobacco Ltd

B.A.T-British American Tobacco Kenya Ltd

According to BAT (K) Ltd Annual Report 2002, the Kenyan Government earned approximately 4.5 billion shillings in revenue via Excise, Corporate and Value Added taxes in 2002, keeping its tradition of being a major contributor to government revenue. It has also managed to sustain profitability over the years. In November 2000, PricewaterhouseCoopers a renown international consultancy firm, and The East African Unveiled the results of a survey to determine East Africa's most respected companies and Chief Operating Officer's and BAT(K) Ltd ranked 7th overall .

The success of BAT (K) Ltd can be attributed to its strategic response to the various challenges raised by the environment. Some of the expected responses from them include market segmentation and branding to target lower income consumers; reduced above the line advertisements and utilising other promotional channels to market their brands and lobbying for self regulation as opposed to government regulation.

This paper will seek to establish the strategic intent of BAT (K) Ltd, the current environmental challenges and the responses to these environmental challenges.

1.3 *Statement of the problem*

British American Tobacco Kenya is a multinational firm that has been in operation in Kenya since 1907. It has held majority market share of the tobacco industry up until the 90's where there has been the entry of two competitors Cut Tobacco Ltd and Mastermind Tobacco Ltd. In spite of it being the oldest tobacco-manufacturing firm in Kenya with sustained profits over the year, it has had to continually review its strategic operations to ensure that this profitability is sustained in the long-term. This is contrary to the common practice of Monopolists who have a reputation of an attitude of “non-response” to changed circumstances. This means that it has had to adapt its operational strategies to the challenges facing the environment to remain relevant and successful in the Kenyan Tobacco Industry.

Some of the current environmental challenges it is facing include:

Increase in competition that poses certain challenges to the management of British American Tobacco Kenya including unfair competition from illegal imports that make their competitor’s products cheaper and thus more affordable to the low income earners.

Increased Government regulation on the tobacco industry via the World Health Organisation initiative to support tobacco control and regulation, which pose challenges on the strategic options available to the firm. According to BAT(K) Ltd Managing Director's report in the BAT Annual Review of 2000, he stated that "External threats in the form of proposed legislation to control the industry have been high on the agenda". The chairman's review in the 2002 Annual

report reinforced this threat stating that it had a direct impact on their business and was expected to be enacted during the year 2003. BAT(K) Ltd is the current market leader in the tobacco industry in Kenya and their concerns on the role that government legislation may have on the industry needs to be monitored.

Increased taxation on their brands, making them less affordable in an economy that has been experiencing a gradual decline. The Government fiscal policy has been seen as punitive to tobacco consumers to discourage consumption whilst at the same time raising huge revenues from manufacturing firms.

The government effort to shift the tobacco farmers from growing tobacco to growing sunflower, which is more profitable and perceived to be less harmful to the health of tobacco farmers. Farmers form a significant part of the value chain in tobacco firms and thus it is important to continually motivate them to continue farming.

Increased litigation worldwide against the tobacco-manufacturing firms. These have cost the industry millions of dollars the most significant one being the US Master settlement Agreement of 1998. Locally there has been a trademark infringement litigation case between BAT(K) Ltd and Cut Tobacco and currently a case of a former consumer alleging that advertisement and non disclosure of the harmful effects of tobacco smoking by BAT(K) Ltd led to his smoking and consequent illness.

These developments in the tobacco industry have challenged tobacco firms to rethink their strategies to be able to ensure continued sustainable operations and reach their final consumer. They also have to ensure that their products are within the World Health Organisation stipulations and that their main supplier of tobacco, their farmers are kept satisfied with their returns.

This leads us to question, how has British American Tobacco Kenya being the most dominant in the Kenyan market over the years and has managed to sustain operations in spite of the challenges raised by the environment and various key industry players? This research aims to document the Key strategic responses that British American Tobacco Kenya has implemented in adapting to the current challenges raised by its environment.

1.4 *Objective of the study*

To establish the strategic responses of British American Tobacco Kenya in addressing current environmental challenges.

1.5 *Importance of the study*

The findings of this paper will be important to the following groups of people:

Scholars who may be interested in understanding the current strategic practises of British American Tobacco Kenya in managing current environmental challenges. It will also form as a basis for further research.

Strategic Management analysts may use the information documented in this research in understanding how a firm manages its main stakeholder requirements and utilise this knowledge in advising clients on practical strategic responses of addressing business environment challenges.

2.1 Business environment

Pearce and Robinson (2000) define a firm's business environment as consisting of all the conditions and forces that affect its strategic options and defines its competitive situation. A host of external factors influence a firm's choice of direction and action and, ultimately, its organizational structure and internal processes. The environment of a firm consists of two main segments; the external and internal environment. The internal environment consists of factors such as the organisational capabilities, tangible and intangible assets that are all within the firm and affects its ability to meet its objectives. A realistic analysis of a firm's resources helps decision-makers determine what strategy is realistic for its operations and thus establish a relevant strategic fit between an organisation and its environment.

The strategic management model of Pearce & Robinson (2000) shows the external environment consisting of three interactive segments: the remote, industry and operating environments. The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation. The factors are; economic, social, political, technological and ecological factors. The remote environment presents firms with opportunities, threats and constraints, but rarely does a single firm exert any meaningful reciprocal influence.

Michael Porter first coined the concept of industry environment in an article in the Harvard Business Review, (1979). According to him, there are five forces that shape competition in an

industry. These include threat of new entrants, threat of substitutes, rivalry within the industry, bargaining power of buyers and bargaining power of suppliers. These are the factors that make up the industry environment and are used in formulation of strategy of firms in a particular industry.

The operating environment, also called the competitive or task environment comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. The main factors considered here are the firm's competitive position, the composition of its customers, its reputation among suppliers and creditors and its ability to attract and retain capable employees. In addition, the competitive environment has been and continues to be driven by technological innovation, globalisation, competition, emphasis on price, quality and customer satisfaction. A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment.

According to Suave (2002), the environment is a critical factor for any organisation's survival and success. The forces of the external environment are so dynamic and interactive that the impact of any single element cannot wholly be disassociated from the impact of other elements. Due to the dynamism and unpredictable nature of the external environment, strategic managers are frequently frustrated in their attempts to anticipate the environment's changing influences. Different external elements affect different strategies at different times and with varying strengths. The only certainty is that the impact of the remote and operating environments will be uncertain until a strategy is implemented. Another difficulty is in assessing the probable impact of remote, industry and operating environments on the effectiveness of alternative strategies.

Except in rare circumstances, it is virtually impossible for any single firm to anticipate the consequences of a change in environment.

Environmental assessment seldom identifies the best strategy, but is generally leads to the elimination of all but the most promising options. It is thus imperative that managers apply critical investigation into the realities of the changing environment for this millennium through enlightened diagnosis of the problems it poses (Pearce and Robinson, 2000).

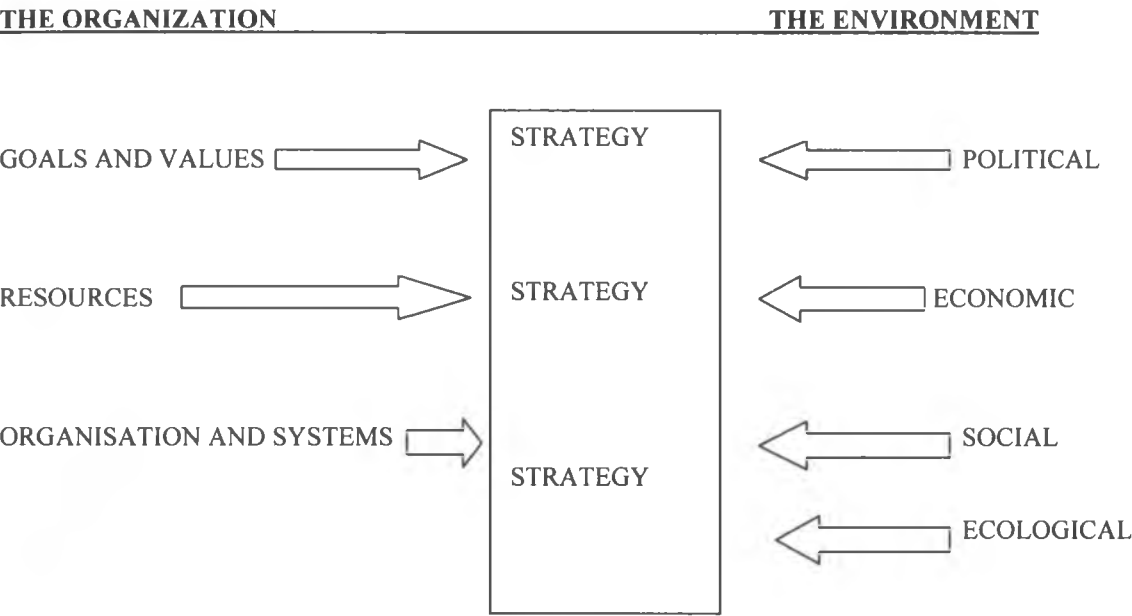
2.2 The concept of strategy

Johnson and Scholes (1999) define strategy as "the direction and scope of an organisation over the long term; which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stake-holders expectations." Strategic Management is the process by which managers set an organisation's long-term course, develop plans in the light of internal and external circumstances, and undertake appropriate action to reach those goals, Goldsmith (1995). The "actions" referred to here are the strategies employed in meeting a firms short and long term objectives. In the process of employing strategy, Pearce & Robinson (2000) recommends three critical ingredients for the success of a strategy:

1. The strategy must be consistent with conditions in the competitive environment. It must take advantage of existing or projected opportunities and minimise the impact of major threats.

2. The strategy must place realistic requirements on the firm's resources. The firm's pursuit of market opportunities must be based not only on the existence of external opportunities but also on competitive advantages that arise from the firm's key resources.
3. The strategy must be carefully executed.

FIGURE 2: Strategy and Environment



Ansoff (1988) states that the interest in strategy is caused by growing realisation that the firm’s environment has become progressively changeable and discontinuous from the past and that, as a result, objectives alone are insufficient as decision rules for guiding the firm’s strategic reorientation as it adapts to changing challenges, threats and opportunities. In a pioneering article published in 1960, Theodore Levitt suggested that a more definitive description of a firm’s role in the environment is requisite for growth and success. Such a description should encompass a

broad scope of natural extensions of the firm's product-market position, derived from some core characteristic of the present business.

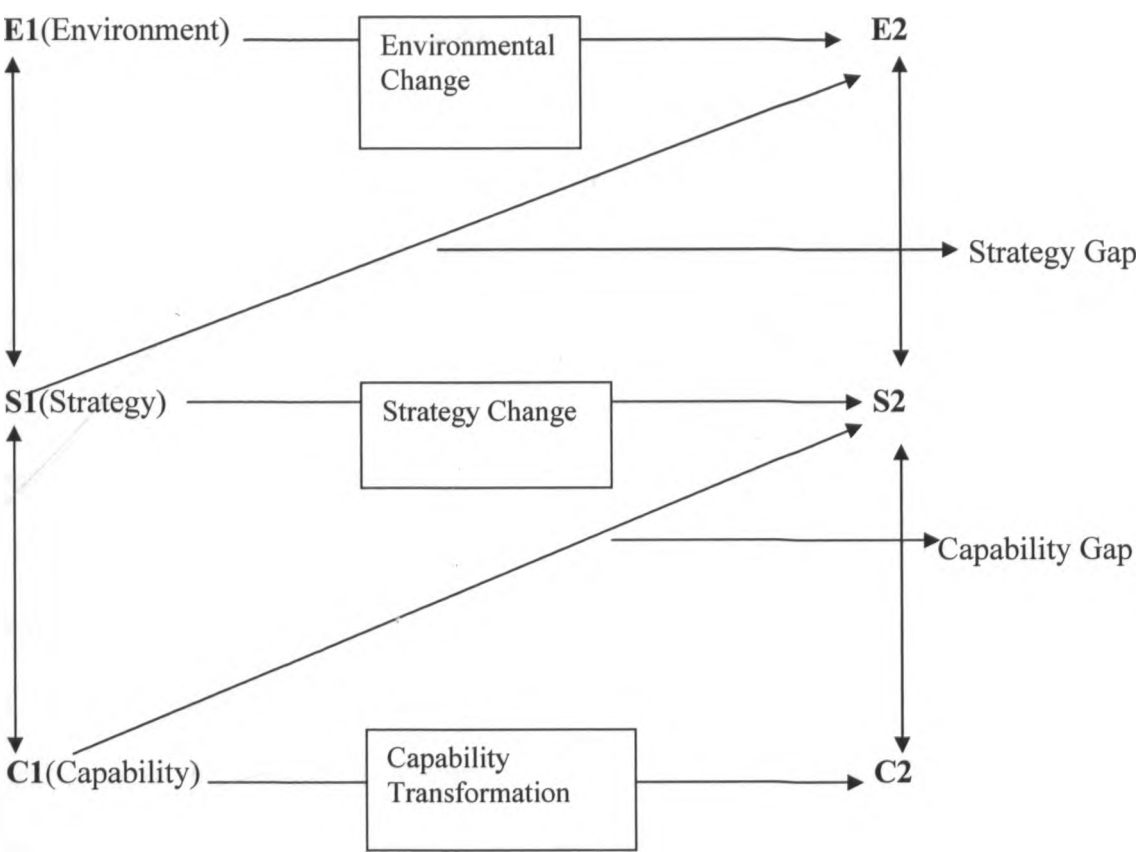
Quinn (1980) defines strategy as a plan or pattern that integrates organisations major goals, policies and helps marshal and allocate resources into a unique and viable posture based upon its relative internal competencies and short-comings, anticipated changes in the environment and contingent moves by intelligent opponents. Porter (1996) defines strategy as the creation of a unique and valuable position involving a different set of activities. This implies that to achieve a unique position, an organisation must make trade-offs in determining what to and what not to in performing activities differently from its rivals. The strategic manager's task is to have a thorough understanding of the environment they operate in and forge a fit between the strategy and the environment and ensure coherence in the intra-organisational variables as well as maintain consistency with the strategy.

2.3 *Strategic response*

According to Grant (2000), survival and success for an organisation occurs when an organisation creates and maintains a match between its strategy and the environment, and also between its internal capability and the strategy. The environment is not static but turbulent, discontinuous and uncertain. Strategic response requires organisations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. This in turn means that organisations need to harness both its tangible and intangible assets to maintain a strategic fit in to its environment and strategy. If an organisation's strategy is not

matched to its environment, then a strategy gap arises. Also if its internal capabilities are not matched to its strategy, then a capability gap arises. It is thus important that organisations are able to shift its strategy with changes in the environment and match its capability to the selected strategy in order to survive, succeed and to remain relevant (Porter, 1985)

FIGURE: 3 Relationship between environment, strategy and organisational capability



An example of the strategic responses that some Kenyan firms that have had to adopt to address change in the environment include East African Breweries which is currently a monopoly but was faced with serious competition from Castle Breweries in the late 90's. It had to revamp its marketing campaigns and position its brands as being originally Kenyan so as to appeal to the

local consumers and also as a way of promoting a sense of patriotism to local industry as opposed to foreign ones. They also introduced a new package for their products in the form of cans which were to compete with the cans their competitor introduced into the market. Due to their real-time strategic response to the onslaught of competition, they were able to sustain profitable operations in Kenya and eventually force their major competitor out of the brewery industry. In a study on strategic responses of East African Breweries undertaken by Njau (2000), it came out clearly that a change in the competitive position requires organisations to decide strategies to adopt. The banking industry has also been affected with changes in legislation such as the minimum capital base requirement being raised to 250million in the late 90's to conform to the Basle Capital Accord. Small banks in Kenya responded by merging together in order to consolidate their capital bases. This was the case between Bullion bank and Commerce bank in 1998 and also National Industrial credit and African Mercantile Bank (Am Bank). This response by the banks to government legislation was their strategic response in order to ensure continued operations in keeping with changes in legislation. Other common strategic responses include diversification like in the case of Nation Media Group from Newspapers to radio, television and expansion of their newspaper division to other East African countries such as Uganda. Kombo (1997) also noted that firms in the Motor Vehicle industry made adjustments by introducing new technologies in product development, differentiation, segmentation and by targeting their customers with improved customer services. All these studies emphasize on the importance of strategic response of firms to changing environmental demands.

3.1 *Research design*

This is a case study on British American Tobacco Kenya. The choice of British American Tobacco Kenya is based on the fact that it has continued to carry out sustainable profitable operations in Kenya over the years in spite of the constantly changing Kenyan business environment. Furthermore, there have been several studies done in the past on the strategic responses of various industries to the environmental challenges such as the one insurance firms by Abdullahi (2000) and on petroleum firms by Chepkwony (2001), but not on British American Tobacco Kenya. This research outlines the main current environmental challenges that have occurred, their effects on the firm and the main strategic responses British American Tobacco Kenya to these challenges.

3.2 *Data collection*

The researcher conducted interviews with the representative of top management involved in strategic management utilising the interview guide in appendix 1 targeting the overall organisations operations and highlighting the main challenging environmental issues affecting the firm as a whole and how they have managed environmental issues affecting them. Secondary data from the organisation's annual reports, Internal magazines and booklets on the firms business operations, relevant discussion papers from Kenya Institute for Public policy research and Analysis, relevant press reports and government reports were also utilised and they were used to compliment information from the interview.

3.3 *Data analysis*

The data collected in this study was qualitative data. The data analysis method used was content analysis, which was found to be most appropriate. In content analysis, the researcher obtained information on the study and focused on issues that bring out the theme of environmental challenges and the firm's strategic responses, successes and constraints in adapting to its environment. Previous studies carried out by Bett (1999) and Njau (2000) have successfully used this technique.

4 CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter documents the findings of the main strategic responses by British American tobacco Kenya to the current environmental challenges. The data collected mainly through interviews with representatives of top management and directors of British American Tobacco Kenya who also provided booklets, brochures, annual reports, internal magazines and other related journal articles related to the subject of study, has been analyzed to capture the current main environmental challenges, their effects and the strategic responses by the firm in managing them for the benefit of the company as a whole. Other sources of data include local press reports, presentation papers on tobacco farming, reports from Kenya institute for public policy research and analysis and studies done by other stakeholders in the industry.

4.2 Company profile

4.2.1 Historical Background

The interviewee was asked to give a brief overview of the history of the Company in Kenya. Information obtained from these discussions indicated that British American Tobacco's presence in Kenya dates back to the beginning of the 20th century, following the opening of the interior of East Africa. The principal company, British American Tobacco, which had been in existence since 1902, joined other British enterprises in pioneering a trading network to market and distribute its products in the new region along the railway, launching its first operations in Mombasa in 1907. It had its first general meeting in Nakuru in 1952, trading under the name Rift

Valley Cigarette Company. This company was then acquired by East African Tobacco Company in 1956, which was a subsidiary of British American Tobacco in the United Kingdom. It then moved from Nakuru within the year and set up a factory on Likoni road which has since expanded and currently accommodates the Group Headquarters for Eastern Africa Area. Due to changes in the sixties characterised by the independence of East African countries in 1965, East African Tobacco Company underwent voluntary liquidation and consequently BAT Kenya Ltd, BAT Uganda Ltd and BAT Tanzania Ltd were established, all reporting to the principle company in London.

The Company started growing tobacco in Kenya in 1975, with small-scale farmers on contract basis. Today, the program embraces an estimated 15,000 farmers. It launched a state-of-the-art green leaf threshing plant in Thika in 1983 from which 60% of the leaf processed is being exported annually and 40% going to the Nairobi Factory for manufacture of products for domestic consumption.

4.2.2 Market Capitalization

Information obtained from its annual financial report of 2002 including local press reports indicate that British American Tobacco Kenya is a publicly listed subsidiary of British American Tobacco in the Nairobi Stock Exchange and currently has in issue 100,000,000 shares at a par value of Kshs10 and market value of Kshs 185 as at 26th September 2003, thus reaffirming its blue chip status in the Nairobi Stock Exchange. It first went public in 1969. Its ownership structure as at 15th April 2003 as per its annual financial report for 2002 is summarized below:

MAJOR SHAREHOLDERS STRUCTURE		
SHAREHOLDER	NO OF SHARES	% HOLDING
MOLENSTEEGH INVEST BV	60,000,000.00	60%
BOARD OF TRUSTEES OF NSSF	20,000,000.00	20%
OLD MUTUAL LIFE ASSURANCE CO A/C 0469950	980,138.00	0.98%
BARCLAYS(KENYA) NOMINEES LTD AC 90000634	946,666.00	0.94%
ICEA LTD LIFE FUND A/C 0122752	878,912.00	0.87%
STANBIC NOMINEES KENYA LTD	761,210.00	0.76%
OLD MUTUAL LIFE ASSURANCE CO	501,097.00	0.50%
MAHENDRA FULCH AND GANDHI AND MRS MALVIKA GANDHI	447,960.00	0.44%
ICEA ACCOUNT 0122600	400,157.00	0.40%
BARCLAYS(KENYA) NOMINEES LTD AC 9001005	388,866.00	0.38%
OTHERS	15,053,824.59	15.00%
TOTAL	100,358,830.59	100%

Source: BAT (K) Ltd Annual Report and Financial Statements 2002.(Ownership structure as at 15th April 2003)

4.2.3 Corporate Governance

The interviewee was asked to comment on the corporate governance of the firm. The information obtained is outlined below and correlated with the information contained in its annual reports of 2002:

The firm is governed by a Board of Directors both executive and non executive. The Board of Directors are appointed by shareholders and are authorised to perform such tasks as providing overall strategic direction, and reviews performance, takes material policy decisions and gives guidance on general policy. The Board is also responsible for the overall system of internal control and for reviewing the effectiveness of these controls to provide reasonable assurance of their effective and efficient operations. It meets at least five times a year.

Responsibility for implementing strategy and day to day operations is delegated by the board to the Managing director and the top management team (Kenya Strategy Team) that meets monthly.

The board has several committees that operate under it. They include: the audit committee that meets a minimum of three times a year to review with internal and external auditors as well as management, the effectiveness of internal controls, matters raised in regular audit reports and annual financial statements prior to their submission to the board; The board compensation committee that approves remuneration policy for employees, management and non-executive directors.

The company being a publicly listed subsidiary of British American Tobacco adheres to the Groups standards and practices of corporate governance. The board has also been studying the Capital Markets Authority's guidelines on Corporate Governance with the view to proposing appropriate action if necessary. In line with the global drive to harmonise the corporate brand for all operating companies of the Group world-wide, BAT Kenya Limited changed its identity to British American Tobacco Kenya in 1998.

4.2.4 British American Tobacco's Strategic Intent

The interviewee was asked to describe the reason for the company's existence and its strategic goal. The information obtained is outlined below and is complimented with information from an internal booklet titled "British American Tobacco, About Us 2003":

The company's mission is "To delight all stakeholders through comprehensive, sustainable and responsible leadership." This mission statement is supported by its vision statement, which is to achieve leadership of the global tobacco industry in both a quantitative and qualitative way. This is being done by focusing their business on three major strategic priorities which are: growth, productivity and responsibility through working together with the aim of promoting responsible

marketing of tobacco. This is the corporate strategic image that the firm aims to portray in all its operations.

4.2.5 British American Tobacco Kenya's Performance

The interviewee was asked to comment on the company's performance and the following information was obtained from the discussion:

Over the years British American Tobacco Kenya has been marketing a mix of high quality cigarette brands in Kenya with an annual production of over 5 billion sticks. It is also one of the largest single contributors to government revenue in terms of government taxes with over 45 billion Kenya shillings being contributed between 1994 and 2001.

The company's annual report of 2002 indicates that the overall financial performance of the company has been stable over the last five years. Gross turnover in 2002 was at Kshs9.4 billion, operating profit was at Kshs1.3 billion and earnings per share was at Kshs8.23. Underlying profit from 1998 to 2002 ranged from 1.2 to 1.8 billion shillings. Earnings per share for the same period ranged from 5.8 to 12.9 and dividends per share from 5.8 to 8.2 shillings. This sustained profitable operation has not been without challenges from its operating environment. Its success over the years has been derived from sound strategies and prudent business practices in the light of a turbulent environment. These strategies have been discussed later in this chapter highlighting the current environmental challenges it is facing and how it has strategically responded to these challenges and thus sustaining market leadership over the years. This information has been documented below under the subtitles; Current environmental challenges

facing the firm, the effect of these challenges and the strategies employed to manage these issues.

4.3 Current environmental challenges affecting the firm

Outlined below are the main environmental challenges facing British American Tobacco:

4.3.1 Extended economic slump

Information obtained from the chairman's report to its shareholders in 2002 outlines that BAT's assessment of the domestic environment is that it remained depressed. The Kenyan economy has been declining over the years, this being accelerated in 1992 with the dawn of trade liberalization and currency decontrols. The introduction of structural adjustment programs imposed by donor agencies which were not mapped well to this third world economy resulted in an economic decline reaching a low of -0.2% in 2000. He stated that the recovery of the Kenyan economy has been hampered by various constraints which include declined savings, lack of donor funding, dilapidated infrastructure and low investor confidence owing to uncertainties surrounding political succession, resumption of donor support and economic governance issues. The Gross Domestic Product growth of 1.3% in 2002 was too weak to have any significant impact on unemployment and poverty reduction. All these factors posed serious challenges to the operations of British American Tobacco Kenya.

4.3.2 Changes in fiscal policy

Information obtained from the annual reports of 2001 and 2002 indicates that this happens annually and results in the high rate of taxes on their products especially of down-market brands. This is specifically targeted at excise taxes. The interviewee's response to how the method of

calculating excise tax had changed yielded the following information; The old hybrid system of charging excise tax has been eliminated, with a new system now in place where excise is charge at a rate of 110% or fixed charges under four different brand names A, B, C and D, whichever is higher. These classifications are based on existing retail selling prices. In essence, this new excise tax system penalizes low price segments of products as opposed to the premium priced products. The former hybrid tax system that combined both elements of the ad valorem (Cost-based) model and specific tax system, relying as it did on both the cost of production and a fixed threshold to determine the tax payable was largely sympathetic to low-cost producers. Cigarette manufacturers are under pressure to remain competitive in a market that buys cheap and the impact of this new excise tax system is to change the excise tax per pack from a low of shs8 to shs13 per pack pushing it into the luxury products segments. This therefore affects the price of cigarettes and thus their demand depending on their price elasticity.

4.3.3 Increased Competition

According to the chairman's and managing directors report to its shareholders of 2001 and 2002, there is increased competition especially in the cheap price segments thereby accelerating consumer shifts to extremely low priced competitor brands. Another Key challenge facing the business that is related to competition is that of unethical competition in the tobacco industry. Extremely low priced cigarettes on the market, which cannot be justified, have gradually infiltrated the market for cigarettes. The main reason for this has been lack of proper taxation on the products that are purportedly for export but get diverted into the Local market at cheaper prices.

4.3.4 Litigation

Litigation is not a new challenge to tobacco firms. This is especially so in western countries where there are great concerns about the effects that cigarette smoking has on the population's health and tough tobacco regulation exists. A working paper on the world tobacco industry done by G Liemt in 2002 outlines the most famous case as the US master settlement agreement. In November 1998, the US cigarette manufacturers agreed to reimburse US states for smoking related health costs, thereby ending uncertainty of continuing lawsuits. The manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota. They agreed to pay the remaining 46 states, the District of Columbia and various territories \$206,000million over 25years to compensate them for the cost of treating smoking related illnesses and to fund anti-smoking programs. They agreed to pay over a five year period, a sum of \$1,450million earmarked for anti-smoking campaigns and \$250million over 10 years for setting up a national public health foundation, which will work towards deterring minors and youths from smoking. Closer home, British American Tobacco Kenya has been involved in legal suits. Press reports highlight the trademark infringement case by BAT (K) on its Sportsman brand against Cut Tobacco's Horseman cigarette. The main issue raised in this case was that Cut tobacco had packaged their cigarette brand Horseman using colours similar to that of BAT (K) Ltd leading brand Sportsman in a way that was likely to deceive or confuse the ordinary consumer, thus the infringement on their trademarked packaging that distinguished its main brand. BAT (K) Ltd argued that even though in a competitive market rivals were allowed to be as close as possible, Cut tobacco had the responsibility of leaving room for distinction. As a result the High Court placed a temporary ban on the Horseman brand restraining Cut tobacco from selling it in its current package. However the Court of Appeal reversed this decision on the

basis that there was no evidence that Cut tobacco aimed at deceiving Kenyan consumers and that the average consumers was not likely to be confused into buying a brand that he did not want.

Another recent case in point is the pending litigation by a former consumer of cigarettes Mr Amos Murigu on BAT (K) Ltd, whom he blames for his cigarette smoking and for the complications that arise from smoking. Mr Murigu who is a farmer claims that he had his leg amputated due to clogging of blood vessels arising from nicotine levels in his body from cigarette smoking. The plaintiff claims that he was enticed to smoking by the company's advertisement as a teenager. He says he quit smoking in 1998 due to health problems, after about 49 years of smoking. Before the 1980's, the plaintiff claims, the Tobacco Company never labelled their products with a health warning, as is the case today. He also claims that he had no reason to suspect that the level of nicotine and tar could be addictive and harmful to his health. He wants to be paid general and exemplary damages arising from his leg, claiming he had continued to suffer in pain in the leg and has been on various medications since amputation. This case is still in court for determination.

4.3.5 Economic and health welfare if tobacco farmers

Presentations by Kweyuh P. of the Africa Tobacco Media program in 1997 to the International Lung Health Conference in France indicate that tobacco farmers are not well remunerated for the services they provide. "On average it is estimated that a tobacco farmer takes home 15,000 shillings after the tobacco firm has taken relevant deductions in respect of inputs provided on loan." Tobacco farming is highly labour intensive and takes about 10 months for it to be ready for harvesting. They enter into contracts with tobacco firms, which are legally binding and result

in the farmers borrowing large sums of money to ensure that the quality of crop produced is up to standard. His report alleges that some of the types of chemicals used include furadin, aldrin and diedrin, all of which are blacklisted by Consumer International. There is also limited safety gear for farmers when applying these chemicals which causes health problems and the whole tobacco leaf curing process has been a contentious issue. The curing process requires lots of wood leading to deforestation in tobacco growing areas which is detrimental to the ecology of the tobacco growing areas. This has lead to indigenous trees in the tobacco growing areas being at the risk of becoming endangered species. The government has also been evaluating initiatives of shifting tobacco farmers from growing tobacco to growing sunflower, which is considered more profitable and less detrimental to the health of farmers and the ecology of the area. All these factors have posed challenges to BAT (K) Ltd as farmers form a very significant part of their value chains in manufacturing and operations.

4.3.6 Government Legislation

The interviewee was asked to comment on the proposed tobacco legislation bill. The following information was obtained:

As per the Chairman's and Managing Director's report to shareholders in 2001 and 2002 there is pending some government legislation in the form of the Proposed Tobacco Regulation Control bill, which is expected to be enacted later this year or next year. The tobacco Control bill of 1999 has been tabled in parliament and is as a result of a concerted effort by certain stakeholders determined to fight an increase in smoke related diseases in another third world market. Press reports indicate that a study done by three researchers from the Kenya Medical Research institute (KEMRI) lead by Dr D.H.O. Kwamanga ,reports that most Kenyans get hooked to the cigarette

in their teens or early twenties. Majority of smokers in the study population (52.3%) started smoking at ages 18 to 24, thus giving more impetus to the calls for regulation.

The key objectives of this stringent bill include: Protection of Kenyans in the light of conclusive evidence on tobacco's debilitating effects on health, protecting young people and others from the use and dependence on tobacco as it is estimated that more than 50% of children are exposed and smoke cigarettes, protecting the health of young people by restricting their access to tobacco products, enhance public awareness on the effects of smoking and to Protect and provide the right of non-smokers to live in a smoke free environment.

Some of the provisions of the proposed bill include; the ban on the sale of cigarettes in individual pieces and henceforth cigarettes will be sold only in packets of 20 sticks. It is estimated that 90% of cigarette sales in Kenya are of single sticks. It will also outlaw all forms of cigarette advertising. Other provisions include ; the ban on all smoking in public places punishable by a fine of not less than 5,000 shillings or imprisonment for a term not less than nine months or both, limiting the age of those buying cigarettes from the retailers to 18 and above and to establish a Tobacco Products Regulatory board to control the tobacco industry.

The chairman of British American Tobacco Kenya in his report to shareholders in 2002 states that the firm supports the enactment of realistic ,workable and enforceable regulations that addresses health concerns whilst taking into account Kenya's socio-economic realities

4.3.7 Demands from Pressure Groups and Other stakeholders

The interviewee was asked about the demands made by pressure groups and the following information was obtained:

Demands made is mainly in the form of lobbying against the tobacco industry due to the health risks surrounding cigarette consumption or the environmental degradation resulting from tobacco curing processes. The most vocal pressure groups include the National Agency for Campaign against Drug Abuse (NACADA) and the Kenya Medical Association who work in conjunction with the Ministry of Health and the World Health Organization (WHO). They have carried out several studies on smoking related illnesses and together have been lobbying with the government through the Ministry of health to impose certain restrictions on Tobacco. They have always encouraged the rise in taxes on cigarette consumption so as to discourage some consumers and in effect reduce some of the health costs related with cigarette smoking. Another group that has exerted pressure on the practices of tobacco farms is the Green-belt movement, which is an environmental conservation lobby group. Their main issue from the environmental lobby groups is that the types of tobacco grown in the tobacco growing areas are fire-cured. This curing process requires a lot of wood-fuel and consequently in the curing process, a lot of trees are felled. This result in environmental degradation through soil erosion and as a result even simple food crops cannot grow effectively in these areas.

4.4 *Effects of the current environmental challenges to the firm*

The effects of the environmental challenges raised above are outlined below:

4.4.1 The extended economic slump

The Chairman’s and Managing Directors report of 2002 contained in the annual report for 2002 indicates that the direct effects of this slump is that cigarette consumption reduced by 7% in 2002 as compared to 2001 mainly due to continued erosion of consumer disposable income and industry wide price increases taken in mid 2001. This in turn affected domestic sales volumes and overall gross turnover reduced by 9% in 2002 as compared to 2001 ending at 9.4billion shillings.

4.4.2 Changes in government fiscal policy

The chairman’s and managing directors report of 2002 and 2001 indicates the increase in taxes has lead to increase in prices of cigarettes, especially the low priced brands. The effects of these price increases are fall in demand in the competitive low priced segment market. A study done by quasi government think-tank Kenya Institute for Public Policy Research and Analysis (KIPPRA) says that a one per cent increase in cigarette prices would result in a corresponding 1.78 per cent fall in demand. Thus the former perception that cigarettes are price inelastic and that the government can earn easy and quick revenue by just increasing taxes may not be tenable. In fact the government is likely to loose in the long run as consumers reduce demand for their products thus affecting overall profitability and tax revenue.

4.4.3 Increased competition

The interviewee was asked about the effects of competition and the following information was obtained:

The effects of the increased competition include reduction of market share from a position of being the only tobacco firm prior to 1990 to about 71% in 2002. Another effect is that the Gross turnover of the products in 2002 reduced by 9% as compared to 2001. Effects of unfair and unethical competitive practices is the down-trading (Switching to low priced brands) by consumers. The key effects of this include reduction of volume sales and market share for the company due to down-trading by consumers who are already challenged economically due to unemployment therefore low purchasing power. Overall domestic consumption fell 6% from 2000 to 2001 and 7% from 2001 to 2002. There has also been a reduction of government revenue due to the reduced consumption therefore lower production and less value added taxes and excise taxes and also the loss of government revenue via diversion of goods meant for export into the domestic market.

4.4.4 Rising Litigation

The Interviewee was asked about the effects of litigation and the following information was obtained:

The main effects of litigation especially from former consumers is that it has the potential of lowering the public value of the firm and could lead to unprecedented future lawsuits, which can cost the company millions of shillings in compensation. This would in turn affect shareholder's value of a firm, lowering its share price and overall profitability, all of which directly affect

operations of the firm. Lawsuits are also time consuming as the process of cases being determined is long and as such legal costs increase .It is thus of interest to the firm's management that such suits be contained to avoid the above repercussions.

4.4.5 Economic and Health welfare of tobacco farmers

Presentations by Kweyuh on tobacco farming In Kenya indicate that some of the effects of this challenge are the loss of some tobacco farmers due to lack of profitability. There have also been consultations with government representatives on options available for tobacco farmers and initiatives being considered to switch them to sunflower farming. There has also been negative publicity to the firm from environmental and medical lobby groups which lowers the public image of the firm.

4.4.6 Government Legislation on Tobacco

According to the chairman's report of 2002, BAT (K) Ltd considers the above issues surrounding tobacco legislation being of importance and considers it to have a direct impact on their business. In the Chairman's report of 2002 to their shareholders, he states that" our position is clear: we support the enactment of realistic, workable and enforceable regulation that addresses health concerns whilst taking into account Kenya's socio-economic realities. Such regulation should ensure that all manufacturers of tobacco products behave in a responsible manner consistent with societal expectations." The enactment of the bill as is would affect sales and consumption of the product, and compel the company to restructure some aspects of their business around marketing and promotion.

4.4.7 Demands from pressure groups and other major stakeholders

The interviewee's response to the effects of pressure groups is outlined below;

The main effect of the demands of main pressure groups and major stakeholders especially in the health sector has been the attention of BAT Kenya. The firm is paying more attention to their demands seeking to understand from the parties concerned what their main concerns are and also being open to such parties about their marketing and responsible product stewardship objectives so as to avoid unnecessary confrontation between the parties. BAT (K) Ltd has always acknowledged that their products pose real health risks and as such their responsibility in disclosing the risks associated with their products to their consumers. The only thing that has not been clear is the scientific relationship between cigarette smoking and certain diseases. Another effect of the demands from pressure groups is the raising of awareness to the government on the need to regulate the industry so as to curb the risks associated with tobacco consumption.

4.5 Strategies employed in managing the environmental challenges

The strategies employed by British American Tobacco Kenya Ltd in managing the effects of the current environmental challenges are outlined below:

4.5.1 Extended Economic slump

The Interviewee was asked to comment on the strategies employed by the firm in managing the extended economic slump and the following information was obtained;

Some of the Strategies employed in dealing with the economic slump include considerable cost reductions in company overheads, supply chain logistics, restructuring and efficiencies in the procurement of goods and services. Beginning in 1999, BAT began a series of bold restructuring initiatives. These were targeted on all functions within the business and were aimed at minimizing their cost base and maximizing the efficiencies of their operations.

Another strategic response to the economic slump is the introduction of new technology in filter manufacturing and tobacco processing to further improve productivity, quality of manufacture and flexibility of operations. The main investments include a new packing line for the plain cigarettes, a complete refurbishment of one of the older lines, upgrading or cigarette making technology on certain product ranges, automatic case packers and filter handling equipment. There has also been an aggressive development of its employees, whom they consider a very valuable asset. This has been done through training both locally and abroad, by seconding local employees to foreign countries and also strengthening our local training capability. They have utilized Oliver Wight MRP2 that deals with learning's on team work and employee empowerment. These efforts have resulted in substantially reduced unit operating costs and lowering waste from over production. Specifically in 2001, there was a 14% improvement in manpower productivity as measured in cigarettes produced per man hour. Wastage of raw materials during the production process that results from weakness in machinery maintenance and operation also improved by a further 15% which brings the overall improvement since 1999 to 50%, leading to increased profits of 18% in 2002 as compared to 2001.

4.5.2 Changes in Government Fiscal policy especially excise tax on cigarettes

The interviewee was asked to comment on the strategic responses by the firm to government fiscal policy and the following information was forthcoming:

The main strategy that BAT (K) Ltd is employing to meet this challenge is to increase their productivity and hence their efficiency levels so as to lower their cost of production and effectively take up some of the effects of the excise tax system and pass a minimal amount to the consumer. This has been done by the improvement of their factory production lines and also the development of their employees together with educating their farmers on more productive ways of achieving more tobacco productivity. All these measures have helped in improving cigarette manufacturing efficiency and productivity. They have not been opposed to this new excise tax system because it is likely to ease collection of tax revenue for the government and also reduce the current tax evasion and fair competition and encourage more investment in quality cigarette production.

4.5.3 Increased Competition

The reports obtained from its annual reports on marketing activities indicate that the strategic responses to intensified competition include concentration of resources on the "drive brands" of Benson and Hedges, Embassy, Sportsman and introduction of Safari brand to compete in the low price segment. This was done by improving the availability of their products in all markets through a variety of distribution enhancements; enhancing merchandising at the point of sale through a major re-branding exercise and the deployment of new kiosks. Sportsman, the leading brand in the portfolio with a market share of 30% benefited from the unique promotional concept

of 'Jenga Jina na Sportsman' campaign. This promotion rewarded the winning consumer's community as well as the individual and is a model of responsible marketing which is their main marketing position. Benson & Hedges, which has been a niche brand, has been growing in excess of 50% for the fourth consecutive year since its inception. They have also expanded their markets resulting in exporting of products to neighbouring countries including Congo thus resulting in a wider market for their products.

Some of the other strategies employed by BAT in dealing with unethical competition include; regular dialogue with government authorities which has resulted in the government developing level playing fields amongst all manufacturers include the impounding of such goods and the temporal shut-down of production for firms involved in this unfair trade. They have also intensified efforts towards ensuring that all players in the industry adopt and practice ethical marketing practices. The government introduced a system of excise tax stamps that has gone a long way in driving out untaxed products from the market and in introducing an orderly, structured market and a level fiscal playing field for manufacturers.

4.5.4 Rising Litigation

The interviewee's response to strategies employed to manage rising litigation include:

Being proactive on the estimation of the possible threats that could arise from various stakeholders and ensure that legal stipulations on production and marketing of cigarettes are followed. They also have in place a qualified legal counsel who employs a lot of effort in managing such suits by representing the firm and also scanning the current environment both locally and internationally to ensure that they can forecast possible risks in litigation and mitigate

such risks before they become a reality. They are also more transparent on their operations and have enacted the international marketing standards which require them to disclose to consumers the possible risks of cigarette smoking thus mitigating any claims on non-disclosure of risks associated with smoking or promotion of underage smoking.

4.5.5 Economic, health, environmental issues around tobacco farming and tobacco curing processes

Information obtained from the interviewee on strategies employed in managing the issues around tobacco farming resulted in the following information:

Some of the strategies employed by the firm to deal with these issues relating to farming of tobacco include: reduced chemical use-age on farms through integrated crop management methods and best practices in tobacco farming. There have been intensive programs, which involved farmers training on all aspects to do with quality of tobacco, field operation, barn design to curing. A new farmer management system whose development cost has been shared by ten other BAT operating companies has been introduced in 2003. This system will aid farmer management, bale tracking and planning. There has also been an emphasis on continuous improvement of the farmer base, enhanced training by expert extension staff and the promotion of agronomic best practices. These are all aimed at managing farmers output and ensuring that efficiencies are achieved using safe procedures, thus increasing their margins and as a result attracting farmers to continue production. BAT Kenya has also embarked on a social responsibility initiative that aims to ensure environmental conservation through promotion of afforestation in tobacco growing areas to ensure use of renewable fuel resources for curing tobacco.

4.5.6 Proposed Tobacco Regulation Control bill

The interviewee's response on the strategies the firm has employed to manage the proposed tobacco regulation bill include making well thought out proposals which they have recommend to be included in the bill to ensure that it meets the objectives of the health concerns surrounding tobacco whilst taking into consideration the socio-economic aspects of the bill. They have been having campaigns promoting the aspect of self-regulation by tobacco firms, which is seen as being more effective in ensuring compliance with stipulations of tobacco regulation. They assert that "bad law does not become good law because it is anti-tobacco." The chairman's report in 2001 stated "we are not however opposed to legislation per se. What we would like to see is a clear, sensible and practical legislation that balances the health concerns with socio-economic realities of Kenya, as we believe it would contribute toward ethical and responsible behaviour by the industry, consistent with British American Tobacco's existing marketing standards."

They have also voluntarily withdrawn from electronic, billboard and other forms of broadcast advertising and now place more emphasis on communicating with consumers at the point of sale. They are also careful not to put up any sort of advertisement near schools thereby displaying their attitude of responsibility in marketing its products solely to adults. They have also ensured adherence to aspects of the Global marketing standards, a self-regulatory code of conduct for marketing activities. Some of the stipulations of this standard are: No advertisement shall be aimed to appeal to the youth or feature a celebrity or depict any person appearing to be under 25years of age; No advertisement shall be displayed in a cinema unless there is a reasonable basis upon which to believe that at least 75% of the audiences are adults; Sample tobacco products are not to be offered to youth or non-smokers; No sponsorship shall be provided for a

team or an individual, which bears a tobacco product brand name, unless all persons sponsored by participants are adults.

The firm seeks out not only to obey the letter of the law as far as tobacco regulation is concerned but to adhere to the spirit or attitude of the law. A detailed outline on the international tobacco products marketing standards is outlined in Appendix 3. The firm has also indicated its willingness to disclose tar and nicotine levels of its cigarette products, and is willing to work with government authorities to prevent access to cigarettes by under-age smokers. They have also withdrawn from the sponsorship of school drama festivals and any other school event as the participants are mainly not adults who are their target markets. The future of marketing of tobacco products is by means of relationship marketing that involves a one on one marketing strategy to already existing consumers rather than through mass media.

4.5.7 Demands from pressure groups and other major stakeholders

The interviewee's response to the strategies employed by BAT(K) Ltd in dealing with the demands from the pressure groups include the enactment of various corporate social responsibility programs in the country. These programs go beyond traditional corporate philanthropy to include greater transparency about how industries operate and how they make their profits. Corporate social responsibility is a strategic priority of the firm and this is being attained by engaging in dialogue with several stakeholders who include the Ministry of Health, Kenya Medical association and communities on ways they can collaborate to achieve mutual benefit in their goals. They are also embarking on the inclusion of corporate social reporting in their main reports so as to communicate to their stakeholders on how they are addressing or seeking to address the issues they have raised. Some of the activities that they have been

involved in the past in demonstrating their responsible corporate citizenship as contained in an internal brochure titled "Celebrating 50 years of Growth and prosperity" include: the construction of housing units in Nairobi (Imara Diama Estate) which aided the government in the easing of the acute shortage of housing. It has also in the past 14years sponsored Jua Kali exhibitions in Kenya, promoting the sector in the East African Community. They have also partnered with the government in their strategy of poverty alleviation by entering into partnership with Kerio Trade winds whose main objective is to identify and develop sustainable commercial crops and other economic activities that can spur economic growth for the people of Kerio Valley area in Kenya. In the areas of responsible marketing of products, they have effectively stopped all advertisements on billboards and general media. They have concentrated their marketing efforts towards relationship marketing and only to adult smokers and withdrew sponsorship of schools drama festivals because the main audiences there were not adults. Their concern on underage smoking was supported by their campaign in 2000 with the concept and message, "If you are too young to vote, you're too young to smoke." They are also willing to compromise with government in the enactment of reasonable tobacco regulation for the mutual benefit of all parties involved.

From the above information, it is noted that the strategies employed are not mutually exclusive. They are numerous and are being utilized together in ensuring that the firm meets its long-term objectives whilst maintaining their corporate strategic intent of promoting responsible marketing of tobacco.

5 CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 *Conclusions*

Strategic response is a prerogative for any firm not only to survive but to remain in profitable existence over the long term. British American Tobacco Kenya is the profitable firm it is today because it has managed over the years to adopt its operations to the changing environmental demands. The results of this study has shown that for BAT(K) Ltd, its ultimate mission is to go beyond satisfying stakeholders but to delight all stakeholders through comprehensive, sustainable and responsible leadership. Some of its key stakeholders are shareholders, consumers, employees, government and various publics. Remaining relevant to its consumers and sustaining shareholder value is of prime importance and this can only be achieved by setting strategic priorities that will ensure that it meets its long-term objectives.

It has established three main business principles around which its strategic priorities revolve. These are the principles of mutual benefit, of responsible product stewardship and good corporate conduct. These principles have guided them in demonstrating responsible corporate conduct across all aspects of their operations. The business environment is one that is constantly changing and it is important that firms have an open minded or flexible attitude so as to be able to deal with the challenges that it will bring from time to time. BAT(K) Ltd is no exception. It has faced various environmental challenges which are not unique to it but cut across most corporate firms. The main environmental challenges faced include, extended economic slump, increased competition, changes in government fiscal policy, proposed government legislation, litigation, Demands from various pressure groups and changes in the global expectations of the work environment.

These challenges as stated above are not unique to BAT(K) Ltd and yet they have been successful in realigning their business and objectives in light of these changes so as to ensure that the firm achieves its long term goals effectively. The strategies that have been put in place to deal with these issues include:

Establishing appropriate marketing and consumer information across all operations by utilising international marketing standards even in markets like Kenya where there are no strict effective regulations on tobacco currently. The future of marketing is one of relationship more personal marketing as opposed to the mass media means of marketing.

They also engage in training and development of staff to ensure continuous improvement and exposure to the business, thus ensuring efficiency and productivity. This includes respecting workplace human rights and ensuring that the environment encourages equal opportunities to all parties who qualify for them.

Reducing the impact that their operations may have on the environment by getting involved in best practices in farming that eliminates the use of certain chemicals considered harmful to the health of its farmers. They have also several initiatives in tobacco growing areas to promote afforestation in those areas because the natural vegetation has been depleted due to the tobacco curing process.

They have been involved in investing in society. They have gone beyond the philanthropic attitude firms have towards social responsibility to transparency of firms activities, outlining their profits and annual contribution to government revenue through taxes. They have also consistently contributed to the local community by sponsoring Jua Kali exhibitions for the last 14 years. This has helped in creating an enabling environment for the sector to market its products and services across the 80million people in the East African Market. They are also the main partners in the Kerio Tradewinds poverty alleviation programme through the provision of technical agronomic advice and support to the people in Kerio Valley.

They are involved in open dialogue with the government and other stakeholders such as the Ministry of Health to balance views and to align their business decision making with reasonable societal expectations of a modern tobacco company. They have also supported proposals on self-regulation of the tobacco industry of their products to promote compliance. Tobacco products pose real risks to health and raise important questions about how best to define responsible product stewardship. They support soundly based tobacco regulation and reducing the impact of tobacco consumption on public health and have even given their proposals to the relevant committee involved in tobacco regulation and control legislation. They believe in always being adaptive to new demands from various stakeholders and as such would like to be open-minded about such issues. They have also introduced social reports through which a better understanding will be made of what stakeholders expect of them and where possible, identify potential solutions to problems relevant to its business and tobacco in society.

Restructuring their organisation so as to lower costs of production and therefore ensure that their products remain affordable to their consumers. This involved retrenching some of their staff. They also installed more efficient and productive machinery that has also helped in being cost effective in an economic environment that has been experiencing an extended economic slump. Their products prices have also been affected by the high taxes especially excise tax. They have also had several consultations with government of the best level of excise tax that will yield highest returns for government in terms of revenue without adversely affecting consumption.

They have employed product diversification by expanding their brand portfolio to counter existing competition in the low calibre cigarette markets, which did not have adequate brand equity, thus the switch in consumption by some of their consumers thus lowering their market share. The safari brand of cigarettes was introduced to counter the competition in the lower calibre brands in the market. They also reintroduced Sweet Menthol into the market, adding to their brand portfolio with new packaging that is appealing to their consumers. It is of primary interest that their consumers get value for money thus they endeavour to develop their products to exceed consumer requirements.

5.2 *Limitations*

Some of the limitations encountered in carrying out this study included the availability of internal environmental issues that the firm may be facing but could not be disclosed due to their confidential nature at the time and also it would be considered to be against company policy. As a result, information on internal environmental issues was not forthcoming. Also the industry is one where there is the alleged practice of unethical competition and as such, some information may not be disclosed, as there could be the risk of it falling into the hands of such competitors and thus pre-empting their strategies. It is a well known fact in business circles that for a strategy to be effective, not only should it be relevant and timely, but it should be unique and not easily imitated or transferable so that the firm can gain competitive advantage over its competitors.

5.3 *Recommendations for further study*

This study was a case study on a single firm in the tobacco industry outlining the main current environmental challenges it is facing, its effects and the strategic responses to these environmental challenges. Further study can be carried out on all the firms in the tobacco industry so that comparisons can be made on the strategic responses by the firms. Another area that can form a basis of interesting and informative study is that of Corporate Social Responsibility activities carried out by firms in the tobacco industry. Some of the information that can be obtained includes the motivation for social responsibility, how they are chosen and aligned to the firm's core business and overall strategy and the results from these activities to the various stakeholders, the firm and the business community as a whole.

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Appendix 1

INTERVIEW GUIDE

**TOPIC: STRATEGIC RESPONSE OF BRITISH AMERICAN TOBACCO KENYA LTD
TO CURRENT ENVIRONMENTAL CHALLENGES.**

SECTION A: COMPANY PROFILE:

- i. When did BAT (K) start business in Kenya? _____
- ii. Who are your principal Shareholders? _____

- iii. How do you define your core business? _____

- iv. How many employees are there in BAT (K) Ltd? _____
- v. What are the Key drivers of Change in your industry? _____
- vi. What is the Strategic intent or Positioning that your firm intends to achieve in the Kenyan Market? _____

vii) How has your firm's performance been in achieving the strategic intent /positioning in the market?

SECTION B : ENVIRONMENT INFORMATION.

ii) What are the current challenges facing BAT (K) Ltd based on the classifications outlined below:

a) Macro-Economic environment:

b) Political/Legal environment:

c) Social environment:

d) Technological environment:

e) Ecological environment:

f) Business/Operating environment:

iii) What strategies have you employed/or are planning to employ in managing the challenges raised above?

<u>ENVIRONMENTAL CHALLENGE</u>	<u>STRATEGIC RESPONSE</u>
a) Macro-economic environment	
b)Political/legal environment	
C)Social economic	
d)Technological environment	
e)Ecological environment	
f) Business/Operating environment	

C) STAKEHOLDER INFORMATION.

i) Kindly rank the listed stakeholders in order of importance from 1 being most significant to 8 being least significant to your organisation.

- Employees-
- Shareholders-
- Government-
- World Health Organisation-
- Farmers-
- Consumers-
- Retailers-
- Various anti-tobacco lobby groups such as Kenya Medical Association.

iii) What are the key challenges raised by the stakeholders listed in (i) above?

STAKEHOLDER

KEY CHALLENGES

<ul style="list-style-type: none">• Employees	<div>i)</div> <div>ii)</div>
<ul style="list-style-type: none">• Shareholders	<div>i)</div> <div>ii)</div>

<ul style="list-style-type: none"> Government 	i) ii)
<ul style="list-style-type: none"> World Health Organization 	i) ii)
<ul style="list-style-type: none"> Farmers 	i) ii)
<ul style="list-style-type: none"> Consumers 	i) ii)
<ul style="list-style-type: none"> Retailers 	i) ii)
<ul style="list-style-type: none"> Anti-tobacco lobby groups 	i) ii)

iii) What Strategies have been employed in managing the challenges raised by the stakeholders above?

STAKEHOLDER	STRATEGIC RESPONSE
<ul style="list-style-type: none"> Employee Challenges 	
<ul style="list-style-type: none"> Shareholder challenges 	
<ul style="list-style-type: none"> Government challenges 	
<ul style="list-style-type: none"> World Health Organisation 	
<ul style="list-style-type: none"> Farmers 	
<ul style="list-style-type: none"> Consumers 	

<ul style="list-style-type: none">• Retailers	
<ul style="list-style-type: none">• Anti-tobacco Lobby Groups	

v) What do you estimate to be your greatest challenges with Stake-holders? in the future? _____

vi) What plans are there to manage these challenges? _____

Appendix 2

Ms Jacqueline W. Mwanthi
P.O Box 20716
Nairobi.

BAT(K) Ltd
P.O.Box 30000 CODE 00200
Nairobi
Kenya.

Dear Sir,

RE: INTERVIEW FOR MANAGEMENT RESEARCH PAPER.

I'm a postgraduate student currently studying for an MBA degree at the Faculty of Commerce, University of Nairobi. I'm currently conducting a management research project in partial fulfillment of the requirement for the Master of Business Administration (MBA) degree. My topic of research is **'A study on the Strategic responses by BAT(K)Ltd to current environmental challenges'**.

Your company is the main focus for the study. The choice is based on its sustained profitable operations over the years, and Professional Corporate image. I kindly request your assistance by availing your time for an interview (No more than 30 minutes) which will be based on the interview guide enclosed herein. Any Publications, Strategic plans, Annual reports or journals that you may have that are relevant to the topic of study may be availed to me at your discretion.

A copy of the final report will be made available to you upon request.

Your assistance will be highly appreciated. You can contact me on the numbers shown below to schedule for the interview at your earliest convenience.

Yours Sincerely

Ms Jacqueline Mwanthi
MBA STUDENT
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11 September 2001

INTERNATIONAL TOBACCO PRODUCTS MARKETING STANDARDS

- The parties subscribing to these Standards (the "Participants") wish to record their belief that tobacco products should be marketed in a responsible manner and that reasonable measures should be taken to ensure that the promotion and distribution of tobacco products is:
 - directed at adult smokers and not at youth, and
 - consistent with the principle of informed adult choice.
- These Standards should be observed in both their letter and intent.
- In subscribing to these Standards, the Participants wish to encourage:
 - all others who manufacture or market tobacco products to join them as Participants; and
 - all others who are associated with the manufacture, sale, distribution or marketing of tobacco products to embrace the principles of these Standards.
- The practices of the Participants should not be less restrictive than these Standards unless required by law, but any more restrictive legal requirement or voluntary undertaking shall take precedence over these Standards.
- The Participants should incorporate these Standards into their own internal codes.
- The Participants intend to support the comprehensive incorporation of these Standards into national laws.
- These Standards do not apply to the relationship between Participants and their suppliers, distributors or other trade partners, although those parties are encouraged to comply with the Standards in any dealings they have with consumers.
- The Participants shall take reasonable measures to prevent third parties from using their tobacco product brand names or logos in a manner which violates these Standards.
- These Standards are not intended to prohibit the use of any trademarks as brand names or on packaging.
- A Participant shall comply with these Standards as quickly as possible, and in any event no later than 12 months from the date that it subscribes to the Standards or, where existing contractual provisions prevent earlier compliance, in any event by December 31, 2002, provided in all cases compliance is not in breach of relevant laws. The timetable for compliance with the Sponsorship Standards is set out in paragraphs 17 and 19.

Definitions

The following definitions are provided to assist in the interpretation of these Standards.

Term used in these Standards	Explanation
adult	A person who is at least 18 years old, except where legal requirements or voluntary undertakings entered into by the Participants specify a higher minimum age for the lawful sale, purchase, possession or consumption of tobacco products, in which case the term “adult” means a person of at least that minimum age.
advertisement	Any communication by or on behalf of a Participant to consumers which has the aim of encouraging them to select one brand of tobacco products over another.
promotional event	An event or activity organised by or on behalf of a Participant with the aim of promoting a brand of tobacco product, which event or activity would not occur but for the support given to it by or on behalf of the Participant.
sponsorship	Any public or private contribution to a third party in relation to an event, team or activity made with the aim of promoting a brand of tobacco product, which event, team or activity would still exist or occur without such contribution.
tobacco products	Manufactured cigarettes, cigars, cigarillos, pipe tobacco, fine cut tobacco, and pre-formed tobacco rolls.
youth	Any person who is not an adult. The term also includes the plural.

Content Standards

1. The following Content Standards are intended to cover all communications by or on behalf of a Participant to consumers which have the aim of encouraging them to select one brand of tobacco products over another. Certain communications associated with sponsorship activities are subject to separate requirements set out in paragraph 19.
2. No advertisement shall:
 - be aimed at or particularly appeal to youth
 - feature a celebrity or contain an endorsement, implied or express, by a celebrity
 - depict any person under or appearing to be under 25 years of age
 - suggest that any of the following is enhanced by smoking:
 - sporting or athletic success,

- popularity,
 - professional success, or
 - sexual success, or
 - suggest that most people are smokers.
3. All new advertisements published or disseminated after subscription to these Standards, including renewals and replacements of existing advertisements, shall contain a clearly visible health warning except those which:
- appear on point of sale material the advertising display area of which is smaller than 250 square centimetres,
 - are, either individually or in deliberate combination with other advertisements, smaller than 25 square centimetres and are placed on promotional merchandise, or
 - until December 1, 2006 are used at and connected with sponsored activities

Media Usage Standards

4. ***Print:***

- 4.1 No advertisement shall be placed in any printed publication unless there is a reasonable basis upon which to believe that
- (a) at least 75% of the readers of such publication are adults, and
 - (b) the number of youth who read it constitute less than 10% of all youth in the country of circulation.
- 4.2 No advertisement shall be placed on the packaging or outside cover of a magazine, newspaper or similar printed publication intended to be read by consumers.
- 4.3 Reasonable measures shall be taken to ensure that no advertisement is placed in printed publications adjacent to material that particularly appeals to youth.

5. ***Outdoor and Billboard:***

- 5.1 No advertisements shall be placed on any billboard, wall mural or transport stop or station which:
- is located closer than 100 metres from any point of the perimeter of a school attended predominantly by youth, or
 - either individually, or in deliberate combination with other such advertisements, exceeds 35 square metres in total size.

6. ***Cinema:*** No advertisement shall be displayed in a cinema unless there is a reasonable basis upon which to believe that at least 75% of the audience are adults.

7. ***Television or Radio:*** No advertisement shall be placed on television or radio unless and until:

- (a) each person seeking access to the channel or programme on which such advertisement is placed provides verification that he or she is an adult, and

- (b) the broadcast is restricted to countries where such advertisements are not prohibited by law.
8. **Internet:** No advertisement shall be placed on the Internet unless and until:
- (a) each person seeking access to the Internet site on which such advertisement is placed provides verification that he or she is an adult, and
- (b) access is restricted to those countries where such advertisements are not prohibited by law.
9. **Video, Audio and Computer:** No electronic advertisement shall be incorporated within any video or audio cassette, compact disk, digital video disk or similar medium unless reasonable measures have been taken to ensure that the intended recipients of the item are adults.
- For the avoidance of doubt, Participants may distribute video or audio cassettes, compact disks, digital video disks and similar media provided that the contents, cover, packaging and means of distribution comply with these Standards.
10. **Product Placement:** There shall be no direct or indirect payment or contribution for the placement of tobacco products, advertisements or items bearing tobacco brand names, within the body of any:
- motion picture,
 - television programme,
 - theatrical production or other live performance,
 - live or recorded performance of music,
 - commercial film or video,
 - video game, or
 - any similar medium
- where such medium is intended for the general public.

Promotion and Event Standards

11. All activities and communications concerned with
- promotional offers
 - promotional events
 - promotional items, or
 - sampling
- shall comply with the Content Standards.
12. **Promotional Offers**
- 12.1 Promotional offers and programs for specific brands which appear on the package, at the point of retail sale, by mail or through other communications shall be directed only to adults and, unless prohibited by law, only to smokers.

- 12.2 Reasonable measures shall be taken to ensure that youth and (unless prohibited by law) non-smokers are excluded from direct mailing lists.
- 12.3 Participation in promotional offers by the general public will be conditional upon evidence of age eligibility and (unless prohibited by law) confirmation of smoker status.
- 12.4 Where promotional offers permit an adult smoker to be accompanied by other persons at a third party event or in an activity, such other persons shall be adults.
13. **Promotional Events:** Each Participant shall ensure that only adults are allowed access to promotional events.
14. **Promotional Items:**
- 14.1 No advertisements shall be placed on:
- items where those particular items are marketed to, or intended to be used predominantly by, youth, or
 - shopping bags.
- 14.2 No advertisement larger than 25 square centimetres - either on its own or in deliberate combination with other advertisements - shall be placed on any items (other than on items with a smoking-related function) which are to be sold, distributed or offered to the general public.
- 14.3 Any item of clothing which is offered for sale or distribution by or on behalf of a Participant shall only be offered in adult sizes.
15. **Sampling:** Reasonable measures shall be taken to ensure that:
- (a) sample tobacco products are not offered to youth or to non-smokers
 - (b) samples are only offered in a segregated area access to which is restricted to adults
 - (c) personnel employed directly or indirectly by Participants to offer sample tobacco products or to conduct promotional activities
 - (i) are at least 21 years of age, and
 - (ii) verify the age and (unless prohibited by law) smoker status of those to whom the samples and promotions are offered, and
 - (d) unsolicited tobacco product samples are not distributed, either directly or through a third party, by mail.

Sponsorship Standards

Sponsored Events

16. No sponsorship shall be provided for:
- an event or activity which bears a tobacco product brand name, unless there is a reasonable basis upon which to believe that all persons who compete, or who otherwise take an active part, in the sponsored events or activities are adults, or
 - a team or an individual which bears a tobacco product brand name, unless all persons sponsored by Participants are adults.

17. As from December 1, 2006, no sponsorship shall be provided unless:
- (a) there is a reasonable basis upon which to believe that attendance at the sponsored event or activity will comprise no less than 75% adults, and
 - (b) there is a reasonable basis upon which to believe that the sponsored event or activity will not be of particular appeal to youth, and
 - (c) the Participant does not anticipate that the sponsored event or activity will receive exposure, other than as a news item, on television or radio or the Internet, unless such exposure complies with these Standards, and
 - (d) success in the principal activity associated with the sponsorship does not require above-average physical fitness for someone of the age group of those taking part.

Sponsorship Advertising

18. All individuals authorised to bear tobacco product advertisements, logos or brand names at sponsored events or activities shall be adults.
19. All forms of advertising associated with or ancillary to sponsorship shall comply with the provisions of these Standards. The following are excluded from these Standards until December 1, 2006:
- on-site signage at sponsored events
 - incidental television and radio broadcasts of sponsored events
 - applications of trade marks or logos to people or equipment participating in sponsored events.

Packaging, Sales and Distribution Standards

20. Cigarettes shall not be sold or distributed to consumers in packages containing fewer than ten sticks.
21. Fine cut tobacco shall not be sold or distributed to consumers in pouches smaller than 10 grams.
22. No incentive or materials shall be provided to support the sale of cigarettes in single sticks.
23. All cigarette packs and all primary packaging for other tobacco products shall carry a clearly visible health warning.
24. All cartons and bundles offered for sale duty-free shall carry a clearly visible health warning.
25. Reasonable measures shall be taken to prevent youth having access to cigarettes in vending machines.

Youth access and minimum age restrictions

26. ***Youth Access:*** The Participants shall make sustained efforts, in co-operation with governments and other regulatory agencies, customers and others to prevent youth having access to tobacco products. They shall also seek ways in which to reinforce and give effect to measures that will prevent youth having access to tobacco products.
27. ***Minimum Age Restrictions:*** The Participants are committed to the enactment and enforcement of minimum age restrictions for the lawful sale or purchase of tobacco products in every country in which their tobacco products are sold. The Participants support efforts by appropriate authorities, manufacturers of tobacco products, distributors and retailers to ensure the effective enforcement of such restrictions.