A STUDY OF RESPONSES OF MILK PROCESSING FIRMS TO INCREASED TURBULENCE IN THE MACRO ENVIRONMENT OF THE DAIRY INDUSTRY IN KENYA: A CASE STUDY OF NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

BY:

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DECLARATION

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

Signed-- Date 7/10/03.

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

Signed-- Date 16/10/03

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DEDICATION

To my family Kap Chepchoge, who taught me the virtues of learning.

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I'm greatly indebted to God Almighty for his grace that has been sufficient for me during the course of my entire program, and in particular during my research work.

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The abundant blessings of our Lord shall be upon you all.

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ABSTRACT

This management research has one major objective, to identify the responses New K.C.C Ltd. has put in place to respond to increased turbulence in the dairy industry. This is a case study whose respondents comprise of the departmental heads of the company. The primary and secondary data collection methods were applied. Personal interviews guided by a semi-structured questionnaire were used to collect the primary data. Content analysis method was used for data analysis.

The findings of the study were that New K.C.C Ltd has been severely affected by the changes in the environment which have been analyzed in the areas of the Political, Environmental, Social/cultural and technological. In conclusion, the company has adopted both strategic and operational responses in order to compete effectively in the turbulent environment of the dairy industry.

Recommendations for policy and practice are that the company should be set free from political interferences in order for it to compete viably in the market. Technological advancements should be enhanced as well as encourage agencies with a strong financial base to handle the delivery of milk. A research and development unit to be set up to keep the company informed on all new developments in the market. The company should be sensitive to the market forces to be able to set up favorable prices for the farmer and have a competitive remuneration package for their staff.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND INFORMATION

The Kenyan business environment has undergone drastic changes, which have affected most industries. Some of the changes include the liberalization of the economy, the accelerated implementation of economic reforms, discontinuation of price controls and an increase in competition. Kenya's Agricultural Policies have been changing over the years as stipulated in the various National Development Plans and session papers.

According to Kenya Dairy Board (KDB), the immediate post independent period, saw a major land transformation exercise in the form of acquisition, subdivision and redistribution of the hitherto large scale, settler owned agricultural farms. The growth in smaller participation was the result of a deliberate government effort to build a strong dairy sector through the provision of highly subsidized animal health, production and breeding services.

The economic reforms in Kenya commenced in the 1990s and covered the entire economy including a gradual decontrol of the prices and liberalization of the economy. The Government policy on liberalization was articulated in the sector policy paper Government of Kenya (GOK), 1996/8; which outlined the reform measures to be undertaken in all sectors of the economy in order to accelerate growth and development.

Ansoff (1987) observes that the environment is constantly changing and organizations are required to constantly adapt their activities in order to succeed. Although change is a fact of life, if organizations are to be effective, they can no longer be content to let change occur, as it will. They must be able to develop strategies to plan, direct, and control change.

Kenya has a well-developed commercial sector of the dairy industry involving the production and processing of milk and milk products. The development of the industry spans over 90 years and has evolved through the following major stages.
Up to 1969, there existed an open market with various independent dairies being active market participants. Between 1969 and 1992, the Government rationalized the dairy industry and created a monopolistic market situation in which Kenya Cooperative Creameries played a dominant role. From 1992, the Government liberalized the dairy industry and opened way to market competition.

Dairy production is part of the livestock production sub-sector in Kenya with its policies formulated by the Ministry of Agriculture. It is estimated that dairy farming is a source of livelihood for about 400,000, small-scale farmers in Kenya today, besides a number of large-scale dairy farmers. (Kioi 2001).

The dairy industry has undergone a number of changes in the decade as a result of liberalization. Competition has intensified in all aspects of the sector. There are a number of private sector participants (small and large), with a limited geographical presence, who are engaged in milk processing and manufacturing of dairy products. In addition, informal traders (hawkers) have now become a formidable force in the dairy industry. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organization in jeopardy (Aosa, 1998).

Kenya Cooperative Creameries Ltd ("KCC") was incorporated as a public limited company under the company act in August 1925. It was registered under the co-operative act in 1932. KCC's principal business activity was buying, processing and selling dairy products both in the domestic market and the exports on behalf of its members. In 1968, it was exempted from all the provisions of the co-operative act. However it still retained dual registration. In 1982 the exemptions for 1968 were revoked in order to facilitate for institution of inquiry into the by-laws and operations of K.C.C Ltd.

To accommodate increasing volumes, KCC through government guaranteed loans embarked on a rapid expansion program during 1970s and 1980's when most of its cooling and processing plants were commissioned. Meanwhile, K.C.C enjoyed exclusive access to an urban market so effectively protected that raw milk sales were virtually non existent up to 1972 and 1987 for UHT, milk prices for producers as well as consumers were officially determined by government. Through this mixture of policies, Kenya was able to create one of the most developed small holder dairy systems in Africa that currently accounts for approximately 70% of improved dairy breeds in East and Southern Africa.

By 1980's the interventionist policies that centered on subsidized consumption and production services were rapidly becoming unsustainable resulting in the introduction of cost sharing or cost bearing measures. Specific policy actions included price decontrols, liberalization and marketing divestiture, commercialization and privatization of dairy support services. The sessional paper No. 1 of 1986 "Economic Management for Revenue Growth" set the framework for significant changes in the policy environment surrounding the Kenya Dairy sub-sector in the 1990's and beyond.

Over the years, KCC grew into a large commercial organization with eleven factories, eleven cooling plants, and twenty-six sales depots covering the entire country.
By 1987/88, KCC was selling 1 million liters of liquid milk per day with dairy farmers reaching a peak of 1.4 million liters a day. But even as the situation stands now, the combination of the private milk processors have not been able to handle the milk volumes that KCC handled when it was performing at its peak.

According to Kenya Dairy Board, a dairy sub-sector study of 1990 by the government and DANIDA recommended that the Kenya Co-operative Creameries (K.C.C.) should be opened for competition and there be unconstrained participation in milk processing and marketing by private sector entrepreneurs.

In 1992, the dairy industry was opened up to private sector participation thus ending KCC's monopoly status in milk marketing in urban centers. KCC was not equipped to meet the challenge arising from the new policy. The firm had to reduce its annual intake, which had an adverse effect on the continued viability of the business, as KCC was unable to re-engineer/restructure, its operations or reduce high operating fixed costs. As a result of the liberalization, KCC had to trim down its operations to improve on efficiency so as to remain competitive. According to KCC Simcan discussion paper (February 1999) the operations that were restructured with effect from August 1998 include:

1. Reduction of operating factories from 11 to 5. The closed factories were used as milk collecting centers.
2. Sales depots were reduced from 26 to 13.
3. Employees were reduced from 5000 to 1800.
4. Assessment of idle assets to be disposed was in progress.
5. Restructuring of shares was also in progress.

Lax management controls led to financial irregularities and procurement abuses. The resultant effect was delayed payments to farmers and suppliers. To address working capital constraints, KCC had to resort to bank borrowings to settle outstanding creditor payments and finance purchase of milk from dairy farmers.

By June 1997, KCC'S financial situation had drastically deteriorated. Despite efforts to resuscitate operations, KCC was unable to regain its past glory, as a new capital to repay a portion of the expensive debt and address working capital requirements was not forth coming. (KCC Holdings Limited, Operating Manual, June 2001).

In 1999 KCC Ltd. was placed under a commission of inquiry by the ministry of Co-operatives after mismanagement was reported, and thereafter in the same year Kenya Commercial Bank (KCB), who were the debenture holders, placed it under receivership and Pricewaterhouse coopers were appointed as receiver managers. Later in August 2000 it was bought under the new name of KCC (2000) Ltd by KCC holdings Ltd. (KCC Holdings Limited Operating manual June 2001).

After the general elections of December 2002, the new Government under the ruling party NARC (National Alliance Rainbow Coalition) extended a good will and support to the farmers in its manifesto with the promise to revive the firm and hand it back to the farmers. The same was voiced in the president's Madaraka day speech and also in the budget speech of 2003. KCC (2000) Ltd was taken over by the government and a new organization by the name New KCC was registered on 25th June 2003, and had its interim board selected and launched within the same month.

Since the liberalization in 1992, new players have entered the dairy industry and according to the Kenya Dairy Board (KDB), out of 45 licensed milk processors, eight had closed down by 1999, and by 2003, there are only 29 active processors. According to KCC-SIMCAN discussion paper (1999), Kenya Co-operative Creameries Limited is the market leader in the Kenya Dairy Industry. Whereas the competing processors have concentrated on production of fresh milk to sell in the easy to access urban market, KCC has maintained a wide range of products targeted for both urban and rural areas. For this reason KCC is the only milk processor in Kenya with a countrywide network of factories and distribution channels.

Though New K.C.C. has continuously changed ownership and therefore its names, it is the same firm that has continued to grow through the phases, as commanded by the prevailing political and environmental influences. K.C.C's future however looks bright following efforts of new NARC government to give it a strategic focus because of its potential to revive the dairy industry.

With new entrants into the dairy industry, competition has continued to stiffen over the capture of the market share, by the milk processors with regard to supply of milk and for the control of distribution channels. Porter (1980) suggests that knowledge of the underlying sources of competitive pressure provide the groundwork for strategic agenda in action. Firms need to revise their strategies when they are faced with unfamiliar changes.

1.2 STATEMENT OF THE PROBLEM

As competition intensified, KCC's annual milk intake began to decline from a peak of about 350,000 MT in the late 1980's-early 1990's to approximately 120,000 MT by 1996/97 .The problem now is how does KCC regain its market share and even reach higher levels. This has caused a decline in earnings and the value of the company, a situation that the management and the owners of the company can't ignore for long. There is a need therefore to review the processes and operations of the company at a strategic level.

Ansoff (1990) emphasizes the fact that no company can achieve success if it does not align its strategy to the dictates of the external environment and its internal capability. In this study an attempt is made to find out the strategies that KCC has adopted in order to align itself to the increasing environmental turbulence in responds to the good will and support from the government.

Similar studies on responses of firms have been done. Most of these studies are limited to strategic response to increases competition, which is a mere integral part of environmental turbulence in other industries as can be seen from the following:
Chepkwony (2001) did a study on Strategic responses of petroleum firms in Kenya to challenges of increased competition in the industry. Isaboke (2001), An investigation of strategic responses by major oil companies in Kenya, to the threat of new entrants. Kandie (2001), A study of the strategic responses by Telkom Kenya Limited, in a competitive environment.

Of the other studies in Kenya only two focused on the dairy industry but not on responses to increased turbulence in the industry. Bett (1995) carried out a research on the strategic marketing of dairy products in Kenya as the way forward to achieve success in the industry. This study was carried out at the onset of liberalization, when the dairy industry was beginning to respond to the dairy industry liberalization of 1992, and milk processors other than KCC were emerging.

Kioi (2001) undertook a study that sought to explore how the players in the industry involved in milk processing are conducting their business. This was in as far as their strategies, marketing focus, choice of product distribution channels, competitive posturing are concerned and how they deal with the challenges posed by the various focuses in the industry. Kioi's study focused on the underlying forces that influence the strategies formulated and implemented by milk processors in Kenya, as they face the various challenges posed by the dairy industry. It goes further to identify the similarities or differences of the strategies formulated by the milk processing firms as they respond to the various challenges. It covers many aspects of the dairy industry in general, except strategic responses in the face of increased turbulence in the macro environment.

The studies above focused on other industries and are limited in their use for understanding challenges of increased environmental turbulence in the dairy industry. This is because the dairy industry is unique in that its environment is dynamic with unpredictable weather patterns that affect milk supplies. Challenges encountered here include the need to tame seasonal variations that cause serious milk gluts followed by shortages, which must be overcome. This industry handles a highly perishable commodity and the processor is faced with a fragmented supply and customer base. This study will address the following question:

What measures has Kenya Cooperative creameries Limited undertaken in response to the increased turbulence in the dairy industry?

1.3 OBJECTIVE

To identify the responses New KCC Ltd. has put in place to respond to increased turbulence in the dairy industry.

1.4 IMPORTANCE OF THE RESEARCH

1. New Kenya cooperative Creameries Ltd. will use the findings of this research to evaluate themselves and forge forward with their new strategies.
2. This research will provide a valuable insight for all those who will be interested in entering and investing in the dairy industry.
3. The findings of this research will be a treasure for the many competitors in the flooded dairy industry.
4. Potential investors will use the findings as a base to start their own analysis of the dairy industry in general.
5. The Government of Kenya will use the findings to asses and put in place new policies for the dairy industry and KCC specifically.

1.5 OVERVIEW OF THE REPORT

Chapter one of this report gives a brief background of the business environment in Kenya since the onset of liberalization and the changes that have taken place in the dairy industry. A brief historical background of KCC Ltd. is also given. After which there is problem definition, the objective of the study, and the importance of the research and the overview of the proposed report. The second chapter covers the literature review on the concept of strategy, the turbulent environments and its effects and finally the chapter identifies both operational and strategic responses open to firms in this state of environmental turbulence. Chapter three looks at the methodology that the research adopted. It identifies the methods of data collection as well as the data analysis methods that were applied. Chapter four presents the findings and interpretation of the data and finally chapter five presents the conclusion of the research project with recommendations.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

The organization exists in the context of a complex commercial, economic, political, technological, cultural and social world. This environment changes and is more complex for some organizations than for others. Strategic managers are frequently frustrated in their attempts to anticipate the environment's changing influences. Different external elements affect different strategies at different times with varying strength. The only certainty is that the impact of the remote and operating environment will be uncertain until a strategy is implemented.

Many strategic developments within organizations are concerned with developing the organization from where it is currently. Organizations have choices on how they will pursue new directions. Internal development has the major advantage of building the resource and competence base of the organization as part of strategy implementation. Simultaneous assessment of the external environment and company profile enables a firm to identify a range of possibly attractive opportunities.

Organizations, which have successfully managed change, have been able to link strategic change with operational change and every aspects of the organization in relation to the dynamic external environment. In most organizations, operations is an internal function that is buffered from the external environment by other organizational functions.

2.2 THE CONCEPT OF STRATEGY

The word "strategy" has been in use since the fourth century. It stems from the Greek strategos, which means the art of the general or commander-in-chief. In the 1950s and 1960s when response to environmental discontinuities became important, the concept of strategy entered business vocabulary. Chandler (1962); and Ansoff (1965); observe that the literature on corporate strategy that emerged is vast and continues to grow in an astonishing rate. Strategic management, the way in which a firm identifies its strategic direction and aligns its operational processes to its strategy has become an academic discipline in its own right, like marketing and finance. (Mitzberg et al. 1998).

Strategy is a much used and abused word and means different things to different people and organizations. Ansoff (1987) warned that strategy is an elusive and somewhat abstract concept. This is expected when dealing with an area that is constantly changing. It is a multidimensional concept. Mintzberg and Quinn (1996) define a strategy as the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Thompson and Strickland (1993) define strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and pursue organizational mission. Porter (1996) states " The essence of strategy is choosing to perform activities differently than rivals do. D'Aveni (1994) takes the view that strategy is not only the creation of advantage but also the creative destruction of opponent's advantage.

In essence, strategy has to do with understanding where an organization will go in the future and how it will get there. According to Ansoff (1990), basically a strategy is set of decision-making rules for guidance of organizational behaviour. Most academicians and corporate managers believe strategy affects the overall welfare of the organization, and strategy making is an important activity, though a few believe firms are better off without a strategy. Many who believe strategy is important, however, find fault with the ability of formalized strategic planning process to deal adequately with the pace of change facing organizations in today's environment.

However, strategy is a powerful tool for coping with the conditions of change, which surround the firm today. It offers significant help for coping with turbulence confronted by business firms. Strategy is the framework within which choices about the future, nature and direction of an organization can be made.

2.3 ENVIRONMENTAL TURBULENCE

Environment is key to the success of any firm. The environment can be relatively stable or turbulent. Hersey (1996) observes that organizations do not exist in a vacuum, but are continually affected in numerous ways by changes in the external environment. External environment consists of all the conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson 1997). Most writers categorize the external environment, both domestic and global into three subcategories: *remote* environment, *industry* environment and *operating* environment. Most organizations have little or no influence on or control over the economic, social, political, technological, and ecological factors in the remote environment.

The operating environment, also known as the task or competitive environment, comprises such factors as competitors, creditors, customers, labour force and suppliers. Organizations, depending on their size, may have more influence on the industry factors such as barriers to entry into the industry, power of suppliers, power of buyers, availability of substitutes or complements, and the intensity of competitive rivalry.

In the 1980's, Porter put forth the proposition that strategy should better reflect the nature of competition and resources within a given business market or environment. Strategic diagnosis is therefore a systematic approach to determine the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in its future environment.

The diagnostic procedure is derived from the strategic success hypothesis, which states that a firm's performance potential is optimum when the following three conditions are met: 1) Aggressiveness of the firm's strategic behaviour matches the turbulence of its environment. 2) Responsiveness of the firm's capability matches the aggressiveness of its strategy. 3) The components of the firm's capability must be supportive of one another. (Ansoff 1990).

According to Ansoff (1990) environmental turbulence is a combined measure of changeability and predictability of the firm's environment. Changeability of the firm is seen by the complexity of the firm's environment and the relative novelty of the successive challenges, which the firm encounters in the environment. On the other hand the predictability is the rapidity of change, which is the ratio of the speed with which challenges evolve in the environment to the speed of the firm's response. Predictability can also be seen in terms of the visibility of the future, which assesses the adequacy and the timeliness of information about the future.

Their high level of dynamism, capability and uncertainty characterizes turbulent environments. Reasons behind these increasing turbulence, are associated to many factors like, technological convergence and the consequential fall in the barriers to entry of industries related with communications and information (Chackravarthy, 1997), the increasing access and availability of information and the need to manage that information in a more effective way and the increasingly global profile of competitors (D'Aveni, 1994). According to Johnson and Scholes (2001) understanding the environment is made difficult by its many diverse influences, secondly is the element of uncertainty and thirdly is the way organizations cope with complexities posed by the uncertain environment

Turbulence is therefore a consequence of the difficulty many industries are facing to accept a congruent vision of external conflict they are dealing with as its building blocks, actors, landscape and rules of behaviour are suffering strong transformations. This situation is hard for actors to build stable expectations about each other's behaviour or, in Porter's (1980) words to identify their "response profile".

2.3.1 NATURE OF THE ENVIRONMENT

Environmental uncertainty increases the more environmental conditions are dynamic or the more they are complex. The approach to cope with the environmental turbulence and uncertainty may differ by the extent to which the environment is stable or dynamic, and also by the extent to which it is simple or complex (Johnson and Scholes 2001). Environmental turbulence is attributed to increasing amount of change and to the drastic nature of many of these changes, especially those related to technology that make increasingly difficult to identify causes or predict results of competitive initiatives with reasonable certainty (Bower and Christensen, 1995; D'Aveni, 1994).

In static conditions the environment is said to be straight forward and not undergoing a lot of changes. If change does occur it is likely to be predictable. This is a situation of low complexity, which allows for identification of predictors of environmental influences. When conditions become dynamic, the future environment needs to be considered alongside the past. Organizations in complex situations face environments difficult to comprehend. With more and more sophisticated technology, there is an increasing move towards this condition of greatest uncertainty. Complex conditions are caused by diversity in organizations although the degree of complexity and dynamism varies from one firm to another.

Environmental forces differ in importance from one organization to another and over time their importance may change. Managers therefore need to be aware of their changing impacts. In understanding the environment, consideration has to be taken on influences that have been important in the past and the extend to which there may be changes occurring which may make any of these more or less significant in the future.

2.3.2 ENVIRONMENTAL INFLUENCES

To understand the microenvironment further, Johnson et al (2001) suggest analysis of forces that affect the external macro-environment of the firms, which they refer to as PEST analysis. P.E.S.T. is an acronym for the political, Economic, Social, and technological factors of the external environment. Such external factors usually are beyond the firm's control and sometimes present themselves as threats.

Many macro-environmental factors are country specific and a pest analysis will need to be done for each industry of interest. Identifying PEST influences is a useful way of summarizing the external environment in which a business operates. However, it must be followed up by consideration of how a business should respond to these influences. The following are examples of some of the possible factors that could indicate important environmental influences for a firm under the PEST analysis.

Political/Legal Factors. The direction and stability of political factors is a major consideration for managers on formulating company strategies. Political factors define the legal and regulatory parameters (Pearce and Robinson 1997). Political constraints are placed on firms through, Monopolies legislation, political stability, environmental protection and regulation, Taxation policy, Trade regulations and tariffs, Pricing regulations, Government law and competition regulation. Since such laws and regulations are most commonly restrictive, They tend to reduce the potential profits of firms. However, some political actions are designed to benefit and protect firms.

Economic Factors concern the nature and direction of the economy in which a firm operates. These factors affect the firms through, Economic growth, Monetary policy, Interest rates, Inflation, Money supply, Government spending, Unemployment rate, Disposable income, Efficiency of financial markets and Infrastructure quality.

Socio-cultural Factors that affect a firm involve, Population demographics, Income distribution, Social mobility, Education, Beliefs, Values, Culture like gender roles, and attitude to work and leisure. Like other forces in the remote external environment, social forces are dynamic, with constant changes resulting from the efforts of individuals to satisfy their desires and needs by controlling and adopting to environmental factors.

Technological Factors to avoid obsolescence and promote innovation, a firm must be aware of technical changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques. Issues considered here are like Government spending on research, Government and industry focus of technological effort, Impact on value chain structure, Impact on cost structure, rates of obsolescence and Impact of changes in Information technology. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility.

The number of macro-environmental factors is virtually unlimited. In practice, the firm must prioritize and monitor those factors that influence its industry. Even so, it may be difficult to forecast future trends with an acceptable level of accuracy. In this regard, the firm may turn to scenario planning techniques to deal with high levels of uncertainty in important macro-environmental variables.

2.4 RESPONSES

Organizations are environment dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort of budding trends and conditions that could eventually affect the industry and adapt to them. (Thompson and Strickland 1993). Failure to do this will lead to serious strategic problem characterized by the maladjustment of organization's output and the demands of the external environment (Ansoff 1984).

Responses of any organization can be both strategic and operational. Strategic decisions are likely to affect operational decisions. The link between overall strategy and operational aspects of an organization is important because, firstly if the operational aspects of the organization are not in line with the strategy, then, no matter how well considered the strategy is, it will not succeed. Second, it is at the operational level that real strategic advantage can be achieved.

2.4.1 OPERATIONAL RESPONSES

The nature and tasks undertaken by the operating core of an organization has an important influence on the various aspects of organizational design and control. (Johnson and Scholes 2001). There are links between the type of production process and the approach to management. Organizations with less standardized operational processes are likely to have devolved an informal decision-making process.

The more sophisticated and complex the technology of an organization, the more elaborate the structure becomes. This is attributed to several reasons. A good deal of responsibility and power is likely to devolve to those specialists concerned with the technology itself. The organization may tend to operate as an *adhocracy.* In turn, this may create the need for liaison between specialists and the operating core of the business. This is likely to give rise to an increase in integrating and co-coordinating mechanism such as committees, joint working groups and project teams, or emphasis on social control through professional networks.

Operations is the core function of the organization and continuously manages the flow of resources through it. In many organizations, operations account for 80% of employees and hence most of their added value. (Naylor 1996). The output of operations system is the bundle of goods and services, which is consumed in society. An organization that does not continuously satisfy the needs of customers fails. A good operations manager does not define the terms as merely tinkering with techniques to run part of the business on a day to day basis. The role is larger than this being also concerned with developing operating processes, products, locations and so on to meet the demands and pressures of the changing environment.

Operational tasks are concerned with the transformation process which takes inputs and converts them into outputs, together with the various support functions closely associated with these basic tasks (Brown et al 2000). Such transformation processes can be applied in three main categories, materials, customers and information. Material processing operations are typically associated with manufacturing, customer processing operations with some sectors of the service industry and, and information processing operations with some service sectors. In practice most businesses rely on a combination of materials, customer and information processing.

Brown et al (2000), observe that operational issues are those activities that enable the organization as a whole to transform a range of basic inputs which may include materials, energy, customers' requirements, information, skills, and finances into outputs for the end customer. An organization uses different kinds of outputs like the transformational inputs such as plant, buildings, machinery and equipment as well as the less tangible but important inputs such as learning, tacit knowledge and experience.

Naylor (1996) observes that organizations can be seen as of elements, which are almost stable and are referred to as structural and others which change continuously are called processes. The term structural refers to the set of relatively unchanging elements within a system. In an operation system, they include buildings, facilities, vehicles or machinery, the basic organization, information systems, work rules and trade unions agreements. Process refers to those features of an organization that change continuously within a structure. In operations they include flows of goods and services, energy, new recruits, cash and information. An organization is set in environment consisting of elements such as competitors, customers, suppliers, the government, the legal system, the labour markets, trade unions, banks and so on. In organizing the business, managers seek to take advantage of the opportunities, which the environment provides while avoiding, or coping with the threats that it imposes.

Operations management organizes, plans, controls and improves this use of process, inventory, work force, and facilities and equipment in order appropriately to determine the ranking of competitive priorities like price, quality, dependability, flexibility, and time, thereby providing short-term profit, long-term profit and market share.

As discussed, operations take place throughout the entire supply network in order to transform and complete the provision of goods and service to end customers. This means that the operations managers have responsibilities both within their own organizations and in the relationship with their suppliers and distributors within the supply chain. The extent of involvement in activities in the entire supply chain depends on a number of factors including the nature of industry, the reputation of the organization and the size of the organization.

The range of responsibilities that operations managers have within the plant or service itself is both profoundly important and wide in scope; they include human resources, assets, and costs. The management of human resource is not limited to the realms of one department; it is a company-wide responsibility. Managing assets is an integral part of an operations manager's role. Hill (1991) in Brown et al (2000) observes that up to 70 percent of assets may fall under the responsibility of operations management. The greatest single cost in the transformation process within a manufacturing environment is usually in material management, however this still remains a problem in many organizations for two reasons. First, materials management becomes relegated to a tactical-clerical buying function, and is not seen in the strategic framework that it needs. Second, the organization will need to form excellent relationships with suppliers and such relationships are still difficult for organizations that are unable to form these strategic links.

2.4.2 STRATEGIC RESPONSES

Pearce and Robinson (1991) define strategic responses as the set of actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Strategic responses are therefore organizational actions that are long-term in nature. They are more embracing of an organization as a whole as opposed to departmental decisions. These responses are known to involve huge amounts of resources. They are a reaction of organizations to what is happening in the environment.

Ansoff and Mcdonnel (1990) noted that strategic responses involve changes in firm's strategic behaviors to assure success in the transforming future environment. The choice of the response depends on the speed with which a particular threat or opportunity develops in the environment. One of the fundamental issues in developing an operations strategy and for that matter a competitive strategy is which activities should be performed internally, and which should be left to others such as suppliers, customers or partners. (Hayes et al 1996). Fred (1989) discusses several strategies that firms can apply in response to an increase in turbulence in the business environment of an industry. The types of strategies include integration strategies, intensive strategies, diversification strategies and defensive strategies.

2.4.2.1 INTERGRATION STRATEGIES

According to Fred (1989), Forward integration, backward integration, and horizontal integration are sometimes collectively referred to as vertical integration strategies. These strategies allow firms to gain control over distributors, suppliers and competitors.

Forward integration involves gaining ownership or increased control over distributors or retailers. An effective means of implementing forward integration is franchising. This kind of response would be appropriate when a firm competes in an industry that is growing and is expected to continue to grow markedly; this is a factor because forward integration reduces an organization's ability to diversify if its basic industry falters. Another suitable situation for this kind of response would be when present distributors or retailers have high profit margins; this situation suggests that a company could profitably distribute its own products and price them more expensively by integrating forward.

Backward integration is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's current suppliers are unreliable, too costly, or cannot meet the firm's needs. Backward integration would also be applied when, the number of suppliers is few and the number of competitors is many. Also when a firm competes in an industry that is growing rapidly, integrative-type strategies (forward, backward, and horizontal) reduce an organization's ability to diversify in a declining industry. When the advantages of stable prices are particularly important, an organization can stabilize the cost of its raw materials and the associated prices of its product through backward integration.

Horizontal integration refers to strategy of seeking ownership of or increased control over a firm's competitors. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. This strategy is most effective when an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government for "tending substantially" to reduce competition. It is also applicable when an organization competes in a growing industry. Horizontal integration can as well be effective when competitors are faltering due to lack of managerial expertise or a need for particular resources that your organization possesses.

2.4.2.2 INTENSIVE STRATEGIES

Fred (1989) observes that, Market penetration, market development, and product development are sometimes referred to as intensive strategies because they require intensive efforts to improve a firm's competitive position with existing products.

Market penetration strategy seeks to increase market share for present products or services in present market through greater marketing efforts. It includes increasing the number of sales persons, increasing advertising expenditures, offering extensive sales promotion items, or increasing publicity efforts. This strategy is widely used alone and in combination with other strategies. Market penetration strategies are most appropriate when increased economies of scale provide major competitive advantages.

Market development involves introducing present products or services into new geographic areas (Pearce and Robinson 1997). The climate of international market development is becoming more and more favorable and inevitable. Market development is therefore most effective when new channels of distribution are available that are reliable, inexpensive, and of good quality. This strategy may also be applied when an organization's basic industry is rapidly becoming global in scope.

Product development strategy seeks increased sales by improving or modifying present products or services. This kind of strategy usually entails large research and development expenditures. When an organization has successful products that are in the maturity stage of the product life cycle; the idea is to attract satisfied customers to try new, improved products as a result of their positive experience with the organization's present products or services. This strategy is most effective when an organization competes in an industry that is characterized by rapid technological developments and when major competitors offer better quality products at comparable prices. Also when organizations compete in a high-growth industry is this strategy applicable. Pearce and Robinson (997) observe that this strategy is adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation or brand name.

2.4.2.3 DIVERSIFICATION STRATEGIES

There are three general types of diversification strategies according to Fred (1989). Concentric, horizontal, and conglomerate. Overall diversification strategies are becoming less and less popular as organizations are finding it more and more difficult to manage diverse business activities.

Concentric diversification strategy involves adding new but related products or services. This kind of strategy would be appropriately applied when adding new, but related products would significantly enhance the sales of current products. On the other hand, the strategy would also be most effective when new, but related products have seasonal sales levels that counterbalance an organization's existing peaks and valleys.

Horizontal diversification is adding new unrelated products or services for present customers. This strategy is not as risky as conglomerate diversification, because a firm should already be familiar with its present customers. This strategy can be applied when an organization competes in a highly competitive and/or a no-growth industry, as indicated by low industry profit margins and returns. When an organization's present channels of distribution can be used to market the new products to current customers, horizontal diversification strategy can be effectively applied.

Conglomerate diversification is the adding of new unrelated products or services. Some firms pursue conglomerate diversification based in part on an expectation of profits from breaking up acquired firms and selling divisions piecemeal. Conglomerate diversification strategy would be most effective when an organization's basic industry is experiencing declining annual sales and profits. It would also be applicable when the organization has the capital and managerial talent needed to compete effectively in the new industry.

2.4.2.4 DEFENSIVE STRATEGIES

In addition to all the other strategies discussed above, organizations can also pursue strategic alliances and joint venture, retrenchment, divestiture, or liquidation, and mergers/acquisitions.

Strategic alliances. With slimming-down of organizations and the contracting-out of some of its functions, there arises a need to pull resources with other organizations, to band together to exploit opportunities and to share ideas and information. These alliances take three forms according to Burnes (2000). Service alliance is where two or more organizations form a cross company consortium to undertake a special project with a limited life span. Such alliances are usually considered when resources of the various patners are insufficient to allow them to undertake the project by themselves. Opportunistic alliance comprises a joint venture whose aim is to take advantage of an opportunity that has arisen. The two principal advantages behind such an alliance are competence enhancing ones like technological transfer and market access.

Joint venture is a strategic alliance that occurs when two or more companies form a temporary partnership or consortium for the purpose of capitalizing on some opportunity. This strategy can be considered defensive only because the firm is not undertaking the project alone. The sponsoring firms form a separate organization and have shared equity ownership in the new entity. Other types of cooperative arrangements include research and development partnerships, cross-licensing agreements, cross-manufacturing agreements, and joint-bidding consortia. Joint ventures and cooperative arrangements are being used increasingly because they allow companies to improve communication and networking, to globalize operations and to minimize risks.

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. It is designed to fortify an organization's basic distinctive competence. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees and the media. This strategy would be very effective when an organization has a clearly distinctive competence, but has failed to meet its objectives and goals consistently over time.

Divestiture strategy is the selling of a division or part of an organization. It is often used to raise capital for further strategic acquisitions or investment. Divestiture can be part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable. That requires too much capital, or that does not fit well with the firms' other activities. This strategy has become very popular as firms try to focus on their core strengths, lessening their level of diversification.

Liquidation is the selling of a company's assets, in parts, for their tangible worth. It is the recognition of defeat and consequently can be an emotionally difficult strategy. However it may be better to cease operating than to continue loosing large sums of money.

Mergers and Acquisitions. A compelling reason to develop by acquisition is the speed with which it allows companies to new product/market areas. In some cases the product or market are changing so rapidly that this becomes the only successful way of entering the market successfully, since the process of internal development is too low. (Johnson and Scholes 2001). Another reason for acquisition is lack of resources or competence to develop a strategy internally. A competitive environment may influence a company to choose acquisition. There are also financial motives for acquisition as well as cost efficiency cases. Mergers are more typically the result of organizations coming together voluntarily. This is likely because they are actively seeking synergistic benefits, perhaps as a result of common impact of a changing environment in terms of either opportunities or threats.

Many if not most, organizations pursue a combination of two or more strategies simultaneously, but a combination strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the firm. Difficult decisions must be made. Priorities must be established. Organizations, like individuals, have limited resources. Both organizations and individuals must choose among alternative strategies and avoid excessive indebtedness.

Organizations cannot do too many things well because resources and talents get spread thin and competitors gain advantage. In large diversified companies, a combination strategy is commonly employed when different divisions pursue different strategies. Also organizations struggling to survive may employ a combination of several defensive strategies, such as divestiture, liquidation, and retrenchment, simultaneously.

2.5 GENERIC COMPETITIVE STRATEGIES

Porter (1980) suggests three generic strategies, which are seen to be potentially successful approaches to outperforming other firms in an industry. These strategies are:

1. Overall cost leadership
2. Differentiation
3. Focus

These strategies are approaches to outperforming competitors in the industry. Firms can sometimes pursue more than one approach as its primary target. Pearce and Robinson (1997) observe that a long-term or grand strategy must be based on a core idea about how a firm can best compete in the marketplace. The popular term for this core idea is *generic strategy*. Below is the graphic representation of the generic model.

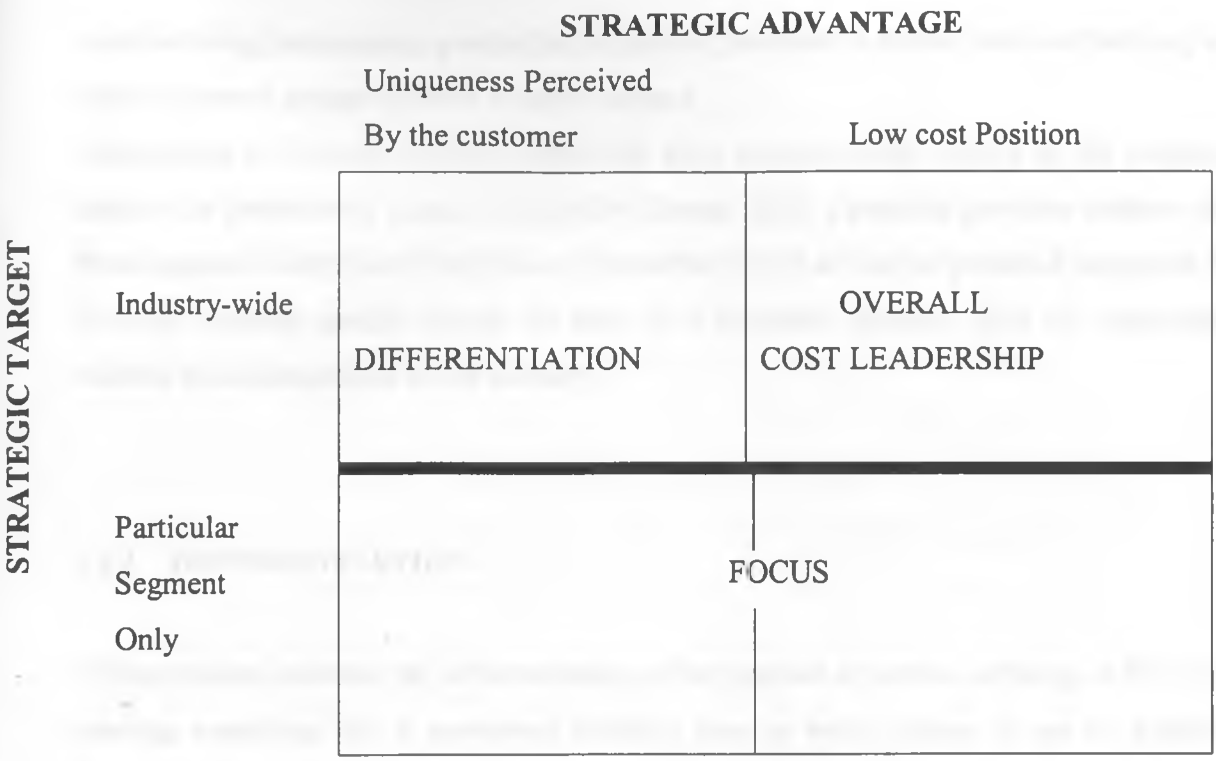

Figure 1: Porter's Model of Generic Strategies.

2.5.1 OVERALL COST LEADERSHIP

According Porter (1980), cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit if cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like Research and development, service, sales force, and advertising. To achieve these aims, a great deal of managerial attention to cost control is necessary.

A low cost position protects the firm against all competitive forces. Achieving a low overall cost position often requires a high relative market share or other advantages, such as favorable access to raw material. It may well require designing products for ease in manufacturing maintaining a wide line of related products to spread costs and serving all major customer groups in order to build volume.

Maintaining a low cost position yields the firm above-average returns in the industry despite the presence of strong competitive forces. Such a position provides defense for firms against rivalry from competitors, powerful buyers as well as powerful suppliers. A low-cost position usually places the firm in a favorable position vis-à-vis substitutes relative to its competitors in the industry.

2.5.2 DIFFERENTIATION

Differentiation involves the differentiating of the product or service offering of the firm creating something that is perceived industry wise as being unique. It can be attained through design or brand image, technology, customer service, dealer network and other dimensions.

Porter (1980) observes that differentiation is a viable strategy for earning above-average returns in an industry, because it creates a defensible position for coping with the five competitive forces, albeit in a different way than cost leadership. Strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute (Pearce and Robinson 1997).

Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also causes increase in margins, which avoids the need for a low cost position. According to Porter (1980), the firm that has differentiated itself to achieve customer loyalty should be better positioned Vis–a-vis substitutes than its competitors.

2.5.3 FOCUS

This strategy involves focusing on a particular buyer group segment of the product line or geographic market. It is built around serving a particular target very well and each functional policy is developed with this in mind. Porter (1980) observes that, the strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly.

According to Porter (1980) the risks in pursuing the generic strategies are two. First is failing to attain or sustain the strategy, second, for the value of the strategic advantage provided by the strategy to erode with industry evolution. A focus strategy, whether anchored in low-cost base or differentiation base, attempts to attend to the needs of a particular market segment (Pearce and Robinson 1997).

The literature review covers the concept of strategy and its development, the nature of turbulence in the macro environment and finally operational and strategic responses that firms can adopt in advent of increased turbulence in the environment are discussed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 THE CASE OF NEW KCC LTD

New KCC Ltd. plays a dominant role in the processing of milk in Kenya. Its structure is well in place that it automatically ensures milk from the farmer passes through the co-operatives or is taken directly to KCC Ltd. The sole exploit of KCC is the distribution to the various urban centres, in that KCC Ltd. does not have to worry either about the supply of raw milk nor does it run short of buyers for its final products. KCC Ltd. has a unique network of 12 collection/cooling plants and 11 processing facilities through out Kenya. This case was selected judgementally with the aim of generating information that would meet the research objective. This is therefore a good case for understanding the responses milk processing firms adopt in the dairy industry to match their otherwise turbulent environment.

3.2 DATA COLLECTION METHOD

This research is a case study, which was conducted to find out how New KCC Ltd. has responded to increased turbulence in the dairy industry. Both the primary and secondary data collection methods were applied. Personal interviews were conducted with the management staff of the firm and questionnaires were used to guide the collection of primary data. The secondary data was obtained from records on past performance of firms from Kenya Dairy Board and KCC journals.

This research used an in-depth type of interview with a semi-structured questionnaire, which constitutes of simple questions at the beginning sections with the latter questions being highly structured. It also consists of mainly open-ended questions. (See appendix)

The questionnaire is structured into three sections. Part A is designed to find out the impact of the turbulent environment of increased competition and other influences of the external environment to New KCC Ltd. after the liberalization of the industry.

Part B aims at determining the specific responses that New KCC Ltd. has undertaken to counteract the increased turbulence since the onset of liberalization. Part c is aimed at obtaining demographic information of the respondents.

3.3 DATA ANALYSIS

The data collected was analysed using content analysis. Relational type of content analysis is appropriate for this study in order to show the semantic relationship that exists between the company responses and the turbulent environment.

The content analysis method is preferred because it is an unobtrusive means of analysing interactions and for its ease of reference and interpretation by the beneficiaries of this study. It also guards against selective perception of the content, and has provision for the rigorous application of reliability and validity criteria and is amenable to computerisation.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS.

This chapter presents analysis of the data collected and its interpretation. The study focused on one major objective to identify the responses New KCC Ltd. has put in place to respond to increased turbulence in the dairy industry. Conducting personal interviews with departmental heads of the company enabled collection of the primary data. The questionnaire used comprised mainly of open-ended questions and a few structured ones.

The data was mainly analyzed by content analysis, which sought an objective, systematic, and quantitative description of a manifest content of communication between the researcher and representatives of the organization under study, and the results are provided below. This Chapter is divided into two major parts. The first presents the general responses of the company while the rest of the chapter looks at the specific responses of the company to specific environmental turbulence in the macro environment of the dairy industry.

4.1 GENERAL RESPONSES.

New KCC Ltd. has since redefined its company mission from "To collect, process, and distribute milk and milk products" to "To be a preferred profitable company of international standing". Before liberalization, five of out of six of the respondents thought survival of the company was not important as compared to after liberalization where all the respondents attested to the extreme importance of survival due to the influx of new processing firms into the dairy industry. Company growth was rated to be just important before 1992 as compared to its position as a very important goal after the policies changed to open up the dairy market. Profitability was considered to be less important before unlike its extreme importance currently. Public image, which was considered to be very important before the onset of liberalization by the majority of the respondents, has become extremely important in order to secure the lost clientele of the past glory.

New KCC Ltd. used to serve both domestic and foreign markets before 1992 and it continued to do so up to 1999 when it changed to concentrate on the domestic market which proved to be very competitive. The company has not changed its products much after liberalization apart from flavored yorghurt and fresh cream, which they used to produce until 1998 when their production ceased.

The company temporarily closed some of its cooling plants and factories after the intense turbulence it found itself in after liberalization, but has had some of them opened since, apart from Nyahururu, Miritini and Naivasha factories, and Kilgoris cooling plant.

All the respondents were in agreement that there has been change both in the long and short-term planning of their company, in response to the changes in the business environment. Such plans have been rated to be very important and are carried out semi-annually.

Staffing levels have since been reduced in order to offer more efficient and effective services in order to realize their survival, profitability and public image goals which have become extremely important to the company. Despite the reduction, there has been focus on employing more sales personnel and to try and fill vacant posts externally in order to inject new ideas into the system. The organizational structure has become lean as compared to the previous large .and complex structure. Although customer sales have reduced, the company now offers after sales services and continues to enlighten the customer on their products. All market segments are served by this company and has packaged their products to suit these segments.

There was an attempt of a merger between KCC Ltd and Parmalat Company from South Africa in 1999, but due to political interests and interference the plan flopped. The company previously engaged in direct sales, which have since been changed to adopting of agencies to do the sales on behalf of the company. The company has since changed its market focus and narrowed it to the local market, which it can serve more effectively and make a hedge from its competitors who may be competing more broadly. This strategic plan is expected to enhance the market penetration and market development plans that the company is pursuing in attempt to effectively compete in the open market and recapture its market share. New KCC Ltd. is likely to venture into alliances with the other major milk processors in the industry as well as merging and acquisition with some of the smaller firms in the industry.

4.2 POLITICAL ENVIRONMENT

Majority of the respondents observed that political interference has been rampant in the day to day running of the company. Before the liberalization of 1992, government policies for the dairy industry favored the company since it was the sole agent for the Kenya Dairy Board to carry out the marketing of dairy produce in scheduled areas. After the liberalization, policies changed and opened up the market without preparing its only agent to cope with the changes.

After liberalization, pricing regulations by the government ceased to be in place forcing the company to determine its own prices based on the market demand, the commercial profits and its running costs. The taxation policies in place have been unfair to KCC's fermented milk 'mala', which should otherwise be accorded zero-rating because it is a food product, but the company has continued to pay tax on this product. Change of Government and political interests have resulted into change of ownership and management as well as the organizational structure of the company several times, which caused interference and hindered the otherwise smooth running of the company. These political changes have also given rise to demands for better prices to the farmers as well as demands by the farmers to have a free hand in managing the cooperative.

The liberalized milk market almost brought to a collapse the hitherto protected KCC Ltd. as it attracted many players in the industry. It is in the event of political changes that the present government has recognized the importance of KCC as a basis for revitalizing the dairy industry. New KCC Ltd. has therefore been taken over by the government in order to hand it back to the farmers with major plans to reactivate it.

4.3 ECONOMIC ENVIRONMENT

The economic depression of 1990s caused a decrease in the consumers purchase power. This gave rise to the consumption of raw unpasteurised milk that is cheaper than the packed milk; hence significantly affecting the market for processed milk. Consumers have also resorted to substitute products like scratch cards, juice and water. The depression has also caused security to deteriorate to the extent that some markets have become inaccessible decreasing further the market served by KCC and causing an increase in theft cases. The quality of infrastructure in Kenya has deteriorated in recent years, which has caused an increase in wastage for both the supplier and the company.

Economic reforms in the country like globalization, regional trading blocks, and liberalization, have given a leeway for the availability of cheap subsidized imported products, which compete against KCC's milk products. Statistics from Kenya Dairy Board say that KCC now enjoys a 6.08 per cent market share in sales of processed milk, way behind small milk processors like Meru Central Co-operative, which enjoys a market share of 8.6 percent.

As a response to changes in the economic environment, KCC has undertaken to increase its advertising, marketing and promotion of its products. The company has also made efforts to increase public awareness on hygiene and the nutritional value of milk. The company has also moved in to sell bulk milk products in cheap packaging materials in order to focus on cost cutting and compete effectively with cheap milk powder. Branding and differentiation of their products was taken seriously in order to encourage recognition by their customers and to encourage brand loyalty in the long run.

There has been an improvement on quality of KCC's products as well as a focus on cost cutting ventures in order to compete effectively with the cheap products now available in the market. There has also been prompt payment to farmers to ensure continuous delivery of milk to their plants that are spread all over the country.

4.4 SOCIAL ENVIRONMENT

There has been bad publicity on the quality of milk in the past, that caused lose of confidence in the company's products. Consumers on the other hand have become well informed and pay keen attention to product declaration like mineral and vitamin content. They are conscious about their fat intake especially the middle and upper income groups. The increase in the general knowledge and awareness of the suppliers has increased their bargaining power and chances for alternatives.

There has been poaching and recruitment of K.C.C's staff by the competitors because of their skills and experience in the dairy industry. This has put the company at loggerheads with its competitors and at a disadvantage in the market. As a result, the company has taken positive measures in rewarding their staff as well as reducing their levels to maintain the effective and efficient work force.

In response to the social forces in place, KCC has resulted to providing consumers with a choice of full cream and skimmed milk products. The company also clearly declares the product ingredients, nutrients and the processing methods. The company, to try and change its image in order to build the customers confidence and restore the past glory that was enjoyed under the monopolistic era, undertakes public awareness.

4.5 TECHNOLOGICAL ENVIRONMENT

The various entrants into the market use new and more efficient machines as compared to those of KCC. This results in cheap production levels without much wastage for the competitors, as compared to the slow and wasteful production of KCC with costly maintenance for their old machines. The high cost of production is due to overcapacity of the company that has not been in utilization due to the turbulence in the environment.
The company is currently carrying out repairs in some of their factories in order to make the best of what is in place, but has plans to invest in new modern machinery in the near future in order to compete effectively in the liberal market and to avoid obsolescence. It has also adapted ways to focus on economic production and do away with bulky expensive production.

CHAPTER FIVE
CONCLUSION

5.1 SUMMARY, DISCUSSIONS AND CONCLUSIONS

The chapter presents a summary of the research project whose objective is to identify the responses New KCC Ltd. has put in place to respond to increased turbulence in the dairy industry. Based on the findings, the chapter further discusses the responses and gives the limitations of the study and recommendations for further research and for policy and practice.

Kenya Co-operative Creameries has changed ownership since the onset of liberalization. Farmers owned it until the year 1999 when Kenya Commercial Bank who were the debenture holders placed it under receivership. It was later acquired by KCC Holdings Limited and finally taken back by the Government to the farmers after the new government took power at the end of 2002. This research found out that the organization has basically remained the same with changes in names and management alongside the different ownership.

It is the consensus of all the respondents that New KCC has faced strong competition after the market was liberalized in 1992. With the introduction of new players in the industry each ebbing into the market that was formerly dominated by KCC, there has been a negative effect on the supply of raw material and a decrease of consumers in the market. As a result of this, KCC lost its monopoly status and has had its market share diminished through the years. The company had to content with the growth of unlicensed milk dealers for the first time since its inception.

New K.C.C Ltd. has had to adapt to the environmental factors in different ways in order to survive in the competitive dairy industry. From the findings, the company has responded both strategically and operationally. Strategic responses being the long-term and embrace the organization as a whole, while the operational are the departmental activities of any organization. The two kinds of responses are seen to be interrelated, since there has to be harmony between the two.

New K.C.C Ltd. adopted quite a number of strategic responses in its attempt to compete effectively in the dairy industry. Intensive strategies were adopted after 1992, when the organization opted to forego their foreign market and turned to concentrate and develop the domestic market further. There was market penetration as well when the company ventured into unserved markets in order to cater for all consumers. Product development has also been prominent because the company decided to develop the existing products instead of venturing into new unknown ones.

Defensive strategies were also undertaken in some areas. The restructuring of shares after liberalization was a liquidation measure undertaken by the company to increase its liquidity. Retrenchment was also undertaken in order to reduce staff so as to reduce costs and increase efficiency and effectiveness. The company adopted some of the generic competitive strategies, when it differentiated and branded its products for easy identification by its clients and to boost brand loyalty amongst them. It also focused on a particular geographical market when it decided to serve the local market only.

The operational responses included the determination of their products' prices based on the market forces of demand and supply. The company also underwent ownership and management changes, which were caused by the political interference. Aggressive advertising and marketing were operational moves that gave rise to the strategic responses like the market and product development strategies. Quality improvement and cost cutting ventures as well as public awareness programs are also some of the operational responses by the company.

New K.C.C Ltd. has undergone its share of political influence and interference and must prepare itself for further influence of the political environment until a time that this environment will stabilize, to allow the company to manage its affairs on its own.

New K.C.C Ltd. boasts of its unique network of facilities through out the country, which was highly depended on by many Kenyan dairy farmers. This company had no limit of their milk intake catering for all levels of farmers. Farmers took pride of its structure that was well in place and ensured an automatic delivery of their milk to the factories. Payments were also prompt that the suppliers were spared the frustration that comes with non-payment of services rendered.

The near collapse of this company impacted negatively on its public image. This is because of the attitude that no one wants to associate with failures, and the availability of alternatives in the market gave the farmer different options to fall back to. For many years, K.C.C failed to pay the farmers promptly causing a further diminish of trust on the company and hurting the farmers further. The new competing milk processors, who entered the market after the liberalization, took great advantage of the farmers' desperation to lure them to their factories. Their milk intake was also limited and could not therefore satisfy all the suppliers.

More frustrations set in when the new entrants lowered prices for raw milk especially during the rainy season when there was so much milk. This causes waste and losses for the milk farmer. With these firms, there is no security concerning one's delivery of milk to the factory. There is lack of consistent policy concerning the pricing, intake and payments of raw material. All the uncertainties in the dairy industry have had a negative impact on the dairy farmer.

From the foregoing discussion, the following conclusions are drawn. New K.C.C Ltd has adopted both operational and strategic responses in order to survive in the turbulent environment of the dairy industry in Kenya today. The strategic responses adopted are mainly the intensive, defensive strategies and to some extend the generic strategies. The responses are basically reactive and not proactive as should be the case.

At present, KCC has facilities across the country worth in excess of Ksh. 5.8 billion. However, some of the facilities are obsolete and others are inefficient, defeating the advantage of economies of scale that KCC enjoys over its competitors. What KCC can do is to take advantage of its facilities spread across the country to put a mechanism in place that will enable it regain the lost market share.

Organizations continually face continued changing environmental conditions, which they should prepare themselves to deal with. There is great need for managers to understand this state of affairs in order to steer their organizations to success.

Organizations should endeavor to plan both strategically and operationally in order to avoid inability to adapt to and adjust to the changing environment. It is crucial for the management to plan with the future in mind to ensure that the strategies formulated are beneficial to the company's success in the long run. There should also be a continuous review and feedback to ensure for effective planning in future.

Environmental changes should be viewed constructively and positively. This is the only way that organizations will stay prepared to handle all the challenges they may encounter in such environments. They should not try to resist change but adapt it accordingly.

5.2 LIMITATIONS OF THE STUDY

This study focused on the responses by New K.C.C Ltd only, which may have failed to capture all the responses from firms in the industry as a whole. Secondly, the time allocated for this research is limited hence hampering the observation the researcher would have undertaken, considering the latest change of ownership, which is just starting to plan for the organization's operations.

Thirdly the company has a number of new employees at the management level who are not very familiar with the organization, which forced the researcher to interview junior staff who have been in the company longer.

Finally, there was a lot of caution in releasing of information concerning the company with fear of the information leaking to the competitors, considering the intensity of the competition in the industry,

5.3 RECOMMENDATIONS FOR FURTHER RESEARCH

A possible study would be on responses by milk processing firms on the turbulent microenvironment of the dairy industry. Considering that this was a case study, which may not have taken into consideration the wider scope of the industry.

Considering the many firms that entered the dairy industry at the onset of liberalization and the few that are now still operational, it would be of interest to study what makes some firms succeed while others fail, given the same environmental conditions that they all operate in.

5.4 RECOMMENDATIONS FOR POLICY AND PRACTICE

1. New K.C.C Ltd. should be set free from political interferences in order for it to be viable commercially.
2. Technological advancement should be enhanced to promote efficiency both at the production and distribution level.
3. Encourage distribution agencies with a strong capital base for a better coverage of the market.
4. Establish a research and development unit to keep the company abreast on the developments in the dynamic market.
5. The company should be sensitive to the forces of supply and demand in order to set up favorable prices for their suppliers of raw milk.
6. Have competitive remuneration packages to retain and maintain high caliber of staff.

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APPENDIX

QUESTIONNAIRE

PART A

1. Is the current competition faced by your company stronger than it was before 1992?

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2. If yes what do you consider has led to this kind of change in the environment (Tick as appropriate) giving reasons how.

a) Liberalization ( )

----

b) Economic depression ( )

----

c) Technology ( )

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d) Political/Legal ( )

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e) Others (Please specify)--

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3 KCC is no longer a monopoly in the industry. What have you done to arrest this situation? --

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4. Political activities have been rife especially after liberalization. What political factors have affected your company and how has your company been affected by them?

b). How has your company reacted?

5. The economic environment has been affected by the economic reforms in the country lately. What changes in the economic sector have affected your company and how?

b) How has your company reacted to this?

6. Social forces have been dynamic in the current business environment. Which social cultural changes have affected you and how have these forces affected your business?

b) How has your company reacted to this?

7. What technological changes have affected your company and how have they influenced your performance? ---
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b) How has your company adapted to the technological advancements?

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8. What are your firm's main challenges in terms the following environmental influences.

a) Increased number of competitors in the industry--

----

b) Competition for the limited market for your products--

----

9. What are your challenges after liberalization and how does your company view the extent of the effects on the challenges?

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10. What are the potential influences posed by a competitive environment in the industry to your company? Briefly state the nature and extent of influence.

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11. Following the changes in the market, how has your company been affected in the following parameters?

Loss of market share --

Loss of customers--

Loss of suppliers---

Decline in profits---

Decline in safety Standards. ---

-

Others (please specify)--

PART B

12. What are the markets served by your company (before and after 1992)?

	Before 1992	After 1992
a) Domestic markets only	( )	( )
b) Foreign markets only	( )	( )
c) Both Domestic and Foreign markets.	( )	( )

13. What products does your company produce and market (After and before 1992)

Before 1992--

After 1992--

----

14. How many of the following does your company have?

Depots------------Cooling plants--------------Factories --------------------------

15. How many were put up before 1992.

Depots------------Cooling plants--------------Factories --------------------------

16. How many were closed after 1992

Depots------------Cooling plants--------------Factories --------------------------

17. Rank the following goals in order of importance before and after liberalization. Tick as appropriate.

Before 1992	**1** Extremely Important	**2** Very Important	**3** Important	**4** Less Important	**5** Not Important
Survival	( )	( )	( )	( )	( )
Growth	( )	( )	( )	( )	( )
Profitability	( )	( )	( )	( )	( )
Public Image	( )	( )	( )	( )	( )

After 1992	**1** Extremely Important	**2** Very Important	**3** Important	**4** Less Important	**5** Not Important
Survival	( )	( )	( )	( )	( )
Growth	( )	( )	( )	( )	( )
Profitability	( )	( )	( )	( )	( )
Public Image	( )	( )	( )	( )	( )

18. Has there been a change in both short-term and long term planning of your company in response to increased competition? --

b). If yes how important would you consider such plans to be now as compared to the period before liberalization? --

19. How often do you review strategic plans in your company? ------------------------------
----

20. In which of the following areas has your company carried out changes to respond to competition after liberalization? (Tick only those changed and briefly indicate the nature of the changes in the spaces provided)

Corporate mission ( )..

Technology ( )..

Organizational Structure ( )...

Customer sales ( )..

Product ranges ( )..

Market segment served ( )..

Staffing (recruitment) ( )...

Strategic alliances ( )...

Mergers/Acquisitions ( )..

Retrenchment ( )...

Distribution channels ( )..

Differentiation ( )..

Market Focus ( )..

Cost Leadership ( )...

Market Penetration ( )..

Market Development ( )..

Product Development ( ) ....

Diversification ( ) --

Others (Please specify)--

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21. What other changes have you carried out? (List and describe briefly below)

List **Brief description**

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22. Could you indicate any other responses your company has employed in response to the changes in the dairy industry--

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23. What are the other strategies that your company is likely to use in the future?

PART C: DEMOGRAPHIC INFORMATION

25 Name of Respondent--

26. Please indicate your position /tittle in the organization-----------------------------------

27. How long have you been with the firm?…………Yrs………Months.

THANK YOU FOR YOUR COOPERATION.