# SURVEY OF THE TOTAL QUALITY MANAGEMENT PRACTICE IN THE KENYAN COMMERCIAL BANKS.



BY:

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

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Taking into account the sacrifice that the MBA program demands from my self and others. I therefore specifically recognize the sacrifice made by my father, mother, brothers and sister for their patience and unfailing support, without which I would not have been in a position to achieve the much coveted masters degree in business administration. In addition, I express my gratitude to my supervisor- Mrs. Kiruthu for her guidance and sacrifice, up to the successful completion of my MBA project.



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# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study:

Not too long ago, the market was characterized with shortages. Hence management's orientation, as far as production was concerned, was to produce for the masses. And whatever was produced would quickly be bought irrespective of quality. However with the emergence of competition the status quo was challenged, and rendered the production concept self-defeating. Indeed the past decade has witnessed the emergence of major forces that have challenged organizations' traditional practices, namely: intense competition; customer awareness; technological advancement; and product/ service proliferation.

The attitude of management then shifted to that of being market oriented. Consequently, all production decisions making start with understanding the target consumers, and then working backwards to the organization. One of the common ways of understanding needs and wants is by undertaking a market research. Once the needs are identified then a product/ service that will satisfy those needs and wants at a profit is developed.

Kenya has a relatively well- developed financial sector consisting of Commercial banks, Non-bank financial institutions, Hire purchase companies, Merchant banks, Insurance companies, Investment advisory firms, Security and equity brokerage firms, a stock exchange bureaus, social security systems, Numerous pension plans, Building societies, Mortgage finance companies, Development finance institutions, a Postal Savings Bank and over 2000 Savings and credit societies. This large number of players has resulted in intense competition and product proliferation.

Consumers of both products and services are daily being bombarded with the message of quality- thanks to the media. Consequently, Consumers are becoming more informed and knowledgeable. The commercial banking sector is no exception. Hence, consumers are demanding quality banking services. Indeed, increased customer awareness of quality should see the need for developing and implementing a quality management system. Such a system should enhance the provision of products or services that are fit for purpose or use, and conform to customer requirement. Hence, the customer driven bank should invert the conventional management- employee- customer power relationship, and move from a philosophy of '*do what I (management) tell you*' to one of '*do what I (customer) need*'.

'*Customer care*'- a common phrase in today's competitive business environment- seeks to meet the varying customer needs and expectations. Bank customers demand *timeliness* in distribution of reports and statements and responses to inquiries, uncompromising *accuracy*, *immediate transaction service*, and *knowledgeable, courteous* banking staff. Consumers place a high value on *convenience* of location and business hours, while business customers add *accessibility* of account managers to their key requirements. Bank customers count on accessibility and convenience as important aspects of quality. To achieve this, banks are implementing Automated Teller Machines (ATM) and the convenience of electronic deposit of pay- checks, amongst other technological advancement.

The importance of quality shows signs of continuous rapid increase in the present and foreseeable future. Corporate management is becoming committed to introducing quality programs into their firms. Consequently the management of resources within an organization must take on a different approach, and the approach should focus on developing a *problem- prevention* mentality.

### 1.1.1 Quality

Quality is interpreted differently and for many when pressed to provide a specific definition and measurement, few can do so. However, if the strategic management system and the competitive advantage are to be based on quality, every member of the organization should be clear about its concept, definition and measurement as it applies to his or her job.

Quality is the totality of features and characteristics of a product or service that bare on its ability to satisfy stated or implied needs. Quality is expressed in ways by different quality authorities, i.e.:

1. Juran (1992): '…fitness for purpose or use…'
2. Crosby (1979/ 1994): '…conformance to requirements…'
3. Feigenbaum (1991): '...the total composite product and service characteristics of marketing, engineering, manufacture and maintenance through which a product and service in use will meet the expectation by the customer'.
4. Deming (1982): 'Quality aims at the needs of the customer, present and future'.

5. Oakland (1993): 'Quality is meeting the customers' requirements'.

Armand Feigenbaum (1983) an authority on the subject of TQM defines quality as 'The total composite product and service characteristics of marketing, engineering, manufacturing and maintenance through which the product or service in use will meet the expectation of the customer'. Several implications of the definition should be noted:

1. Satisfaction- quality depends upon the evaluations external to the company that produces the goods or services. It is not determined by some internal standards- unless those standards have been carefully established on the basis of accurate interpretation of customer information and feedback about their needs and expectations.
2. All parts of the company play a role in seeing that the customers' needs and expectations are met.
3. Customer satisfaction usually relates to long-term use of goods or results of a service, so its evaluation is based on comparison, over considerable time, with the customer's perception of competitive offerings.
4. Quality is a dynamic, moving target- goods or services must be improved over time as competitors improve. What was a quality product yesterday may not be one tomorrow.
5. Quality requires a composite of attributes to satisfy a range of expectations of numerous customers or potential customers.

### 1.1.2 Total Quality Management (TQM)

Quality must be a key goal in the whole organization. It is important that customers perceive quality in their contacts with all aspects of the company from the first sales brochure or sales call through the billing cycle and throughout the lifecycle of the good or service purchased. If a company is to be competitive, quality work is also important in all support activities that customers' do not see. Oakland (1993) defines TQM as an approach to improving the competitiveness, effectiveness and flexibility of a whole organization. It is a way of planning, organizing and understanding each activity, and depends on each individual at each level.

### 1.1.3 Strategic quality management, productivity and competitiveness:

Studies suggest a strong relationship between quality, productivity and competitiveness.

Quality goods and services are strategically important to firms. The quality of a firm's products, the prices it charges, and the supply it makes available are all factors that determine demand.

Improved quality can lead to both increased market share and cost savings, both of which can affect profitability. Likewise, adhering to quality standards means fewer defects and lower service costs, hence productivity (Heizer, 1996). In the past business managers and practitioners' felt that additional benefit from improved quality do not compensate for the additional expense. They viewed quality- attributed to performance and features, cost more in terms of- labor, materials, design and other costly resources. This view was however dismissed by many including the quality authorities. Deming for instance promoted that improved quality cost less than the resulting savings- a view also held among Japanese firms. The savings result from less rework, scrap and other direct expenses related to defect- justification for continuous improvement of processes.

An organization can expect its reputation for quality (be it good or bad) to follow it. Quality will show up in perceptions about the firm's new products, employment practices and supplier relations. According to Heizer, self-promotion is not a substitute for quality products.

Indeed in many countries, courts increasingly hold organizations that design, produce, or distribute faulty products or services liable for damages or injuries resulting from their use. Hence, a strong relationship exists between non- conformance to quality and product liability.

In this technological age, quality has international implications. In order for any company and a country to compete effectively in the global economy, products must meet global quality and price expectations. Inferior products harm a firm's profitability and a nation's balance of payment.

Quality has taken center-stage as the main issue in both national and corporate competitive strategies. Those organizations that adopt quality, as a differentiation and a way of life will over the longer term pull ahead of competition. Achieving this goal is not easy. It is more than just issuing pronouncements and engaging in company promotion. When an organization chooses to make quality a major competitive edge, it should become the central issue in strategic planning-from mission to supporting policies. In addition, there is need to develop an organizational culture based on quality.

### 1.1.4 Services and the service industry

Omachonu (1994) notes that there is more concern for product quality than there is for quality services and service industries. Historically, emphasis has been on the manufacturing industries and indeed many writers such as Storey (1994), Alan (1996), and Nazim (1996) refer to TQM as a New Wave ***Manufacturing*** Strategy (NWMS). However, since quality improvement is achieved through the actions of people, service and service industry, TQM should not be a premise of the manufacturing industry only.

Indeed, the quality of service and service industries account for the larger percentage of total employment. A large percentage of employees in the manufacturing industry work in the services (i.e. marketing, finance or the many other activities not directly involved in physically producing products) Omachonu asserts that possibly 90 percent or more. Hence the concept of 'service quality' is becoming increasingly recognized.

In many ways defining and controlling quality of service is more difficult than that of products. Unlike manufacturing, service industries share unique characteristics that make the process of quality control less manageable but no less important. Feigenbaum (1983) proposes the following 5 major attributes found to be important in describing service quality.

1. Reliability- the ability to perform the promised service dependably and accurately.
2. Responsiveness- the willingness to help customers and provide prompt services.
3. Tangibles- physical facilities, equipment and the appearance of personnel.
4. Assurance- the knowledge and courtesy of employees and their ability to convey trust and confidence.
5. Empathy- the caring, individual attention provided to customers.

A service business needs to identify specific attributes that are important and the degree to which they are important in satisfying its customers. It should design its product for greater customer satisfaction. However, the most significant problem with the delivery of service is that it is typically measured at the customer interface- the face-to-face interaction between supplier and customer. According to Omachonu (1994), the level of quality expected in the services and the service industry is less predictable. He argues that the service company operations are affected by several characteristics, including the intangible nature of the output and the inability to store the output.

Other distinguishing characteristics, he identifies, that affect the service operations include:

a) Behavior of the delivery person.
b) Image of the organization.
c) The customer present during the production process and performing the final inspection.
d) The measure of output is difficult to define.
e) Variance and acceptance ranges may not apply.
f) Adjusting the control system if the customer is present.

**1.2 Statement of the problem:**

The emergence of major forces such as intense competition, customer awareness, technological advancement and product/ service proliferation, has posed a lot of challenges to organizations' traditional practices- the banking sector not an exception.

The large number of players in the Kenyan banking sector has resulted in intense competition and product proliferation. Consequently, this has necessitated the need for redefining practices on an organization-wide basis to stand out from competitors and thus enhance competitiveness. In addition, consumers are becoming more informed and knowledgeable. Consequently, this sees the need for developing and implementing effective quality management system within the banks. Such systems should seek to enhance the provision of products or services that are fit for purpose or use, and conform to customer requirement.

Not too long ago the idea of '*customer care*' was developed, and indeed banks in developed economies are currently reaping the fruits of this quality initiative. The question however is whether Kenyan commercial banks have really adopted an efficient and effective 'customer care' program, that the TQM approach warrants.

As noted, bank customers' count on accessibility and convenience as important aspects of quality. To achieve this, banks are implementing Automated Teller Machines (ATM) and the convenience of electronic deposit of pay- checks, amongst other technological advancement. In Kenya the challenge for many commercial banks is to install such technologies adequately.

The survival and growth of organizations in an increasingly turbulent environment would depend upon effective utilization of TQM. In Kenya, a number of TQM research studies have been done. Notable examples include that by: Kiruthu (1996), Oloko (1999) and Omufira (2001). Kiruthu's study focused on the TQM status in the manufacturing sector. Oloko on the other hand focused on the obstacles faced in implementing TQM in the Banking sector- a case study of Standard chartered bank (K) ltd. While, Omufira undertook a study of the TQM implementation in the construction industry.

In this regard, it is important to undertake a study on TQM practice in the commercial banking sector. The selection of commercial banks for this study is due to the realization that the commercial banking sector plays a significant role in many economies. And with the current intense competition banks could shift to the use of total quality in providing services.

## 1.3 Objectives of the study:

The objectives of the study are:

- To establish the extent of practice and scope of developing and implementing the TQM program in the banking sector.
- To establish the benefits realized in adoption of Total Quality Management.
- To establish the problems encountered in the process of developing and implementing the TQM approach.

## 1.4 Hypothesis of the study:

Total Quality Management (TQM) is an important and necessary competitive strategy in the commercial banking sector.

### 1.5 Importance of the study:

The study seeks to benefit the following:

1. To the organization- the study would contribute to the organizations understanding of TQM. The study hopes that the discussion would provide some useful insight to help managers as they and their companies endeavor to make headway along the journey to TQM. It seeks to sensitize organizations on the importance of the TQM program.
2. To the academicians- the research is expected to shed some light on the importance of TQM to organizations and possibly recognize and appreciate TQM as an important competitive strategy.
3. To the researchers- the study seeks to stimulate interest for further research in TQM, mainly in the banking sector.

# CHAPTER 2

## LITERATURE REVIEW

## 2.1 INTRODUCTION:

The notion that superior performance requires a business to gain and hold an advantage over competitors is central to contemporary strategic thinking. Hence, firms' seeking advantage over their competitors, are exhorted to develop distinct competencies by adopting the TQM approach, which promotes a customer focused assessment approach to management.

### 2.1.1 Strategic quality management, productivity and competitiveness:

Classical literature (Michael Porter) on competitiveness claims that firms position themselves strategically in the market place along one of the following two dimensions: cost and differentiation. Differentiation provides uniqueness to buyers and it has been a success to many organizations.

Selecting a strategy and recognizing quality, as the competitive dimension is important for strategic purposes. Product and service quality has become widely recognized as a major force in the competitive market place and in international trade. According to Omachonu, eight out of ten customers consider quality to be equal to or more important than price in their purchase decisions. And whether a cost leadership or differentiation strategy is chosen, quality must be a competitive consideration in either case. He further adds that in the case of differentiation, firms can waste money because their uniqueness does not provide real value to the buyers. Thus, the customer's purchase decisions are based on quality at an acceptable price.

To enhance competitiveness, quality must be an organization wide objective. In other words, all functions within the organization must work towards enhancing quality. Indeed, at the heart of TQM is the concept of intrinsic motivation. Empowerment- involvement in decision making- is commonly viewed as essential for assuring sustained results. In the banking sector, it is becoming more and more acknowledged that human factors are the most important dimensions in quality and productivity improvement. Consequently, qualified personnel i.e. graduates are preferred, to deal with customers on a one-on-one basis (a strategy of both Human resources and marketing functions).

Similarly, quality is significant in the marketing role. According to Oakland (1993), quality starts with marketing. Hence, the marketing function of an organization must take the lead in establishing the true requirements for the product or service. Marketing needs to establish customer requirements by reviewing the market needs, particularly in terms of unclear or unstated expectations or preconceived ideas held by customers. The marketing function must also establish systems for feedback of customer information and reaction, and these systems should be designed on a continuous basis. Any information pertinent to the product or service should be collected and collated, interpreted analyzed and communicated to improve the response to customer experience and expectations. The operations function, on the other hand, is embracing quality as a critical factor to competitiveness; quality is emerging as an important competitive priority.

In essence, for any organization to be truly productive and competitive, each part of it must work properly together. Each part, each activity, each person in the organization affects and is in turn affected by others. Failure to meet the requirements in one part or area creates problems elsewhere leading to yet more errors and problems.

It is however notable that the definition or concept of quality of any function if allowed as the overall organization- wide definition, potential conflicts can occur. For instance in the marketing function, the quality concern is about performance, features, service, focus on customer concerns, user based concerns that raise costs. While that of the operating or manufacturing function, the concern is the product/ service specifications and cost reduction. In the case of finance the quality concern would be accurate, timely and objective data and information. Hence, adopting a single approach could lead to cost increases as well as customer dissatisfaction. Each function has a role to play, but it cannot be played in isolation.

### 2.1.2 Evolution of quality:

Japanese firms have been on the forefront in developing company- wide total quality management (TQM). Quality management has evolved from inspection- oriented quality control (prior to 1930's), through statistical quality control growth phase (in the 1930's) and a Total Quality Control growth phase (in the 1950's), into what is now TQM with rapid growth from the 1980's to the present. Table 1 below summarizes the four main quality eras and their characteristics.

Table 1: The four major eras.

| Characteristics Inception date. | Inspection (1800s) | Statistical quality control (1930s) | Quality assurance (1950s) | Strategic quality management (1980s) |
|---|---|---|---|---|
| **Concern** | Detection | Control | Coordination | Strategic impact |
| **View of quality** | A problem to be solved | A problem to be solved | A problem to be solved, but one attacked proactively | A competitive opportunity |
| **Emphasis** | Product uniformity | Product uniformity with reduced inspection | The entire production chain, from design to market, and the contribution of all functional groups, especially designers, to preventing quality failures | The market and the consumer needs |
| **Method** | Gauging and measurement | Statistical tools and techniques | Programs and systems | Strategic planning, goal setting and mobilizing the organization |
| **Role of quality professionals** | Inspection, sorting, counting, and grading | Troubleshooting and the application of statistical methods | Quality measurement, quality planning, and program design | Goal- setting, educating and training, consultative work with other departments and program design |
| **Who has responsibility for quality** | The inspection department | The manufacturing and engineering department | All departments, although top management is only peripherally involved in designing, planning and executing quality policies | Everyone in the organization, with top management exercising strong leadership |
| **Orientation and approach** | 'Inspection in' quality | 'Controls in' quality | 'Build in' quality | 'Manages in' quality |

**Source**: Garvin D.A. (1988). **Managing Quality: The strategic competitive edge.** New York: the free press- Macmillan. P 37.

## 2.2 DIMENSIONS OF QUALITY:

Garvin (1987) has proposed eight critical dimensions/ categories of quality that can serve as a framework for strategic analysis. That is performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. Some of these dimensions of quality are mutually reinforcing while some are not. A product or service can rank high on one dimension of quality and low on other. It is therefore this interplay that makes strategic quality management possible. The challenge for managers is to compete on selected dimensions.

Garvin argues that a company need not pursue all eight dimensions simultaneously because this is seldom possible unless the company intends to charge unreasonably high prices. Technological limitations may also impose a further constraint.

The Banking sector may seek to compete along the following dimensions: *Performance* (i.e. the time to process customer request); *features* (automatic bill paying); *reliability* (variability of time to process requests); *durability* (keeping pace with industry trends); *serviceability* (on line reports and a large network of branches, many automated tellers, and other services such as 24-hour account update information); *response* (courtesy of teller); *aesthetics* (appearance of bank lobby); *reputation* (endorsed by community leaders). Smaller banks may attract customers by offering higher interest rates on savings, lower rates on credit card interest and personalized service.

## 2.3 THE TQM APPROACH

TQM is a philosophy of continuous improvement of quality, although its origins date back to the 1940's and 50's. However Feigenbaum formally used the term in 1957. Many authorities have contributed to the development of the TQM idea. These authorities include: Feigenbaum, Deming, Juran, Ashikawa, Taguchi and Crosby. Each authorities stressed a different set of issues from which emerged the TQM approach to operations improvement.

The idea of TQM is to ensure that the management adopts a strategic overview of quality. According to Narasimham (2000), TQM is the most important part of competitive initiatives of organizations. The TQM movement places the customer- internal or external- as the most important definer of quality. Hence customer satisfaction is the primary focus. According to Oakland, Total Quality Management (TQM) is far more than shifting the responsibility of detection of problems from the customer to the producer. It is an approach to improving the competitiveness, effectiveness and flexibility of a whole organization through planning, organizing and understanding each activity at each level.

Every organization should develop and state its policy on quality, together with arrangements for its implementation. The contents of the policy should be made known to all employees. The preparation and implementation of a properly thought- out quality policy, together with continuous monitoring, make for smoother production/ service operation, minimize errors and reduce waste.

### 2.3.1 Differences between traditional quality management and TQM:

Total Quality Management (TQM) puts customers at the forefront of quality decision-making- Customers needs and expectations are always considered first in measuring achieved quality. In addition, TQM takes an organization- wide perspective. It holds that all parts of the organization have the potential to make a positive contribution to quality. TQM takes considerable emphasis of the role and responsibilities of every member of staff within an organization to influence quality- it encourages the idea of empowering individuals to improve their own part of the operation. The implied cost models of TQM are very different from those used in the traditional approach to quality.

Traditionally the emphasis was placed on finding an optimum amount of quality effort, which minimized the costs associated with quality. By contrast Total Quality (TQ) emphasizes the balance between different types of quality cost. It argues that increasing the expenditure and effort on prevention will give a more-than-equivalent reduction in other costs. This idea is often summarized in the phrase ‘right first time’. TQM also paces a heavy emphasis on the idea of problems- solving and continuous improvement.

### 2.3.2 Themes of TQM:

Oakland (1993) proposes 3 major themes of TQM: Customer focus, process management and company- wide involvement.

The objective of being *customer focus* is to satisfy the market the firm seeks to serve. An important aspect of the process of designing quality products is giving people what they want.

Finding out what the customers want and incorporating those wants into the product design and manufacture (or service provision) is a multi-step process. The steps of the process are: Obtaining the data (traditionally, customers' opinion is solicited through interviews and surveys); Characterizing customer needs; Prioritizing customer needs and; Linking needs to design

Total quality companies attach great importance to finding out what their customers really want and need. These firms are open, direct and honest with their customers. They ask them what they want and how they as suppliers are performing. Naturally information about customers is not enough and thus, successful firms must act on the information and provide the products and services their customers want first time, every time. Total quality firms are keen at meeting commitments and never supplying defective products.

A process is a combination of people, machines and equipment, raw materials, methods and environment that produce a given product or service. The outputs are aimed at satisfying customer needs and expectations in the form of products, information, services or general results. *Process management d*emands process improvement. Indeed one of the primary objectives of TQM is to create processes in which individuals or groups will 'do the right thing the first time and do the right thing right'. However due to possible changes in the environment that may hamper with the process and/ or the input, and consequently the quality of the output, processes must be effectively managed otherwise quality will regress to mediocrity. Hence process improvement on a continuous basis, is inevitable.

Indeed, according to Schonberger, improving a product or service means going through successive cycles of measuring, controlling for consistency, and consequently improving the process. Feedback provides the system with an opportunity to evaluate the gap between customer expectation and what the firm delivers. Control of the system, on the other hand, means the process is monitored and brought under control by gathering and using data. This leads to a situation of fewer complaints and returns, less scrap, less labor content, fewer equipment failures, better tooling- the route to quality improvement. In the never- ending quest for improvement in the ways processes are operated, numbers and information will form the basis for understanding, decisions and actions; a thorough data gathering, recording and presentation system is essential.

Hence, a variety of quality management tools and techniques should be used to facilitate quality improvement from introduction to sustaining its development and advancement. Some of this tools and techniques include: *Benchmarks* (which compare a process against those of recognized leaders to identify opportunities for quality improvement); *Flow charts* (which describe an existing process and/ design a new process); *Cause-and-effect diagram* (analyze and communicate cause and effect relationships and facilitate problems solving from symptoms to cause solutions); *Scatter diagram* (discover and confirm relationships between two associated sets of data and confirm anticipated relationships between two associated sets of data); *Tree diagram* (show the relationships between a topic and its component elements) and; *Control chart* (diagnosis, control and confirmation).

The objective of TQM is to ensure that all members of an organization are working together on *company- wide quality improvement*. For an organization to be truly effective, each part of it must work properly together towards the same goals, recognizing that each person and each activity affects and in turn is affected by others. In addition, TQM is a way of ridding people's lives of wasted effort by bringing everyone into the process of improvement, so that results are achieved in less time. All facets of the organization focused on continuous quality improvement to the customer in a process that continues all the time

**2.4 MANAGING FOR QUALITY:**

Adam (2001) has suggested several significant steps in the effective management of quality.

a) **Strategy and quality**- to facilitate the development of a strategy the company vision must be articulated so that all the firm's employees can share in the vision. The formal articulation of the vision is known as the company mission statement. A good mission statement should provide a clear statement of the goals of the firm and is the first step towards formulating a coherent business strategy (Nahmias: 2001). Once having articulated a vision, the next step is to plan for the strategy for achieving that vision. However the link between strategy and quality is crucial if the firm is to have a consistent purpose.

b) **Clarifying the quality theme**- the key to achieving and maintaining high quality is first to set a strategy, and then effectively communicate this strategy as a theme to the employees and customers. Top management must develop and communicate an expectation of quality to guide the organization, defining the desired quality for each product or service, and setting quality standards for all activities that support the primary business goal.

c) **Ascertain the external and internal elements affecting quality**- they are key elements that affect quality in every organization. Effective managers must therefore be able to identify these elements and seek to understand how they affect quality in their firms

d) **Understanding relationships among factors determining quality** -there is need to understand the relationships among factors determining quality:

i). *Customer perceptions*: a progressive organization should have a well-established strategy for quality, one that is based on customer perceptions of quality. Customer service after the sale of a product is often as important as the quality of the product itself. A customer service audit is one way of identifying customer perceptions of quality. The audit is equally meaningful for services and products. It is also useful for all services performed internally (for others in the firm).

ii). *Expected quality outcomes:* people, skills, materials and processes are blended together to provide products and services for customers. These products and services are of certain quality, evaluated by how well they conform to expectations. These expectations should be customers based rather than internally based, i.e. manufacturing of engineering. There must be a customer- product or customer- service link, a well-managed interface with clear instructions and feedback to operations, where the work is actually performed. This link is equally important for service and manufacturing firms.

iii). *Factor relationships*- the way resources are blended (technology), the relative emphasis of one resource over another (cost structure), and the skills and abilities of people are crucial. Competition, pride, knowledge etc- contribute to quality performance.

e) **Analysis for improvement**- Crosby (1998) states that the correct cost for a well-run quality management program should be under 2.5 percent. There are three assumptions needed to justify an analysis of the cost of quality: Failures are caused, Prevention is better and Performance can be measured. To help diagnose whether organizations operations are conforming to plan there are available, sets of diagnostic and analytic techniques to help the operations managers answer these questions. Once managers have analyzed potential areas for quality improvement, they must give specific direction to ensure performance quality.

The most popular approaches to quality improvement are based upon the teaching, writing and consulting of Deming, Juran, and Crosby. Also in recent years much effort has been devoted to instilling a 'quality orientation' in all employees within the organization, and especially those who work in the conversion process. This is because achieving desired quality depends upon appropriate human performance, involvement and commitment.

## 2.5 IMPORTANT ISSUES IN TQM

*Quality certification* provides a focused structure for organizations to assess their own quality management and improvement efforts. The best known of these are the Deming prize, the Malcolm Baldrige National Quality Award and in Europe the EFQM Excellence Model. In addition, companies and their suppliers are increasingly seeking to become registered to the ISO 9000 standards, which are internationally recognized. These are concerned with the systems and procedures that support quality. These are intended to assure purchasers of products and services that they have been produced in a way that meets customer requirements.

Performance may be referred to as the degree of accomplishment of the tasks that make up a job. *Performance measures* are a vital part of the control process and as Tom Peters put it "what gets measured gets done". There are four important questions that ought to be answered in measuring performance: What are the key aspects of the organization or of each separate part of the organization that should be measured?; What is the appropriate measure of performance for each key aspect?; What is the appropriate benchmark in each case against which to evaluate performance?; And why measure?

Although service quality is important, generally service characteristics are more complex than product characteristics and thus harder to identify and measure. The characteristics that determine customer acceptance are often intangible i.e. customer perceptions such as timeliness, employee attitudes towards customers, and the physical environment where the service is delivered. Despite the difficulties, a procedure to measure service characteristics has been developed in several large and medium sized commercial banks (see Table 2).

Table 2: Essential features of a bank's quality measurement system

| Points of inspection: | Examples of what to look for: | Consequences of deviations: | Possible methods of measurement: |
|---|---|---|---|
| **Loan ratio** | Too low or too high | Loss of profits, inadequate funds | Complete tabulation compared to standard. |
| **Equity base** | Small or large | Committed to lower yields, less risky use of funds; high equity permits, greater risk | Routine reports |
| **Liquidity ratio** | Ratio of short-term to total | Loss of potential profit; low ratio inability to meet withdrawals or make new loans. | Tabulation compared to norm |
| **Loan portfolio** | Collateral backing, degree of risk, term length | Possible defaults | Internal and external audits |
| **Margin** | Adequate reserves | Violation of regulation | Routine observation |
| **Savings accounts** | Accuracy | Not serious to bank but creates unhappy customers, loss of prestige and business. | Sampling of accounts |
| **Checking accounts** | Accuracy, overdrawn accounts | As above, plus possible losses on overdrafts if honored | Routine sampling plus flagged accounts |
| **Savings to total deposits** | Ratio | High ratio results in higher interest costs | Occasional observation |
| **Teller operations** | Shortages, neatness, manners | Loss of prestige | Daily tally sheets, general subjective observation |

**Source**: Aquilano, N.J. & Chase, R.B. (1991). **Fundamentals of Operations Management**. Boston: ARWIN. Pg.141.

*Continuous improvement (CI)* as a philosophy approaches the challenge of product and process improvement as a never- small wins ending process of achieving. It is an integral part of a TQM system. Specifically, CI seeks continuous improvement of machinery, materials, labor utilization, and production methods through application of suggestions and ideas of team members. This philosophy is contrasted with the traditional approach of relying on major technological of theoretical innovations to achieve improvements (Chase: 2001). Continuous improvement in product and process is the ultimate goal of any quality program.

The purpose of *benchmarking* is to ensure continuous improvement, and is only one of the means of achieving this. Competitive benchmarking is gaining importance in light of increasing global competition. Types of bench marking: product/ competitive benchmarking, functional benchmarking, best practices bench- marking, strategic benchmarking, internal benchmarking and generic benchmarking. Although bench marking is a useful tool, it is not a substitute for a clearly articulated business strategy and a vision for the firm. For the quality program to be effective, all the parts, activities and persons must work together. There is need to break down barriers between departments by eliminating individualism and promoting teamwork and thus enhancing effective management of the quality program. In addition, since most problems are inter- departmental rather than a single 'work force fault'. Also, emphasis on individualism promotes division and conflicts.

*Training, education, communication and development programs* are useful in making employees aware of the importance of quality, principles of process improvement and the realities of changing markets and circumstances for their organization and the definition of their role. Skill transfer is inevitable in a quality driven culture.

The organization- wide training aims at informing and developing a company- wide vision of the business, team functioning techniques and common quality implementation methods. Secondly, these programs aim at changing everyone's attitude towards a shared perspective of the business or enterprise. And the skill based training that focuses on quality tools appropriate for each individual's job. Training, education and/ or development programs aim at empowering employees. If training is done properly, results can lead to a reduction in waste and associated costs, while gaining market share on productivity.

Organizations that try to change the quality *culture* without an honest communication system will fail. Effective communication up, down, across the organization and between the suppliers and the customers' is paramount. According to Oakland, any quality program will succeed after everyone in the organization undergoes a complete change of 'mind set'. Staff will therefore need to be trained, educated or developed and shown how to reallocate their time and energy to studying their processes in teams, searching for causes of problems and correcting the causes- not the symptoms. Furthermore these programs promote the confidence, motivation and commitment of staff.

To be successful in promoting business efficiency and effectiveness, TQM must be truly organization- wide, which must start at the top. Top management must accept the responsibility for and commitment to a quality policy in which they must really believe in. The leaders within the organization must all demonstrate that they are serious about quality. Supervisors/ middle level managers have a particularly important role to play, since they must not only grasp the principles of TQM, they must go on to explain them to the people for whom they are responsible.

**2.6 IMPLEMENTING AND DEVELOPING A TQM PROGRAM:**

TQM aims at achieving an organization's objective of making quality the number one priority in its daily business activities. TQM implementation is the role of top managers who should initiate the process through the involvement of the employees in their departments. In essence, implementation of TQM is a process that entails the following steps: Gaining commitment to change through organization of the top team; developing a shared vision of what change is required; developing the mission into its critical success factors and; monitoring the implementation process and adjusting as necessary.

Several firms have experienced considerable problems with the introduction, development and measurement or quality improvement. Whalen (1994) has suggested the following barriers to implementation and development of a TQM program: Poor planning, lack of management commitment, teamwork complacency, lack of proper training, resistance of the work force to change, lack of resources, use of off-the-shelf program, failures to change organization philosophy to accommodate a TQM program and, lack of effective measurement of quality improvement

## 2.7 CASES IN THE SERVICE INDUSTRY

LIBERTY BANK

Liberty Bank, a full service bank provides a complete line of financial and asset management services to consumers (retail), business (commercial), trust and credit card customers in Bartimore Maryland, USA. Its quality initiative began in 1986 both as a response to increasing competitive pressure in the deregulated financial services environment and as a renewed commitment to customer satisfaction. Its mission is to differentiate itself from its competitors by delighting customers with the products and services they receive, and thereby setting the standard not only for Bartimore as a bank, but banks of comparable size nation- wide. Liberty bank, encourages the involvement of customers surveys, focus groups and pilot introduction in the development of new products and service

The success of liberty banks quality effort is evident. It holds 2.1 billion in assets and has a very strong financial performance record. For 1991, there was a 2.1 percent return on assets and 20.4 percent return on equity where both at the $95^{th}$ percentile for all banks in their nationwide peer group ($ 1 billion to dollars five billion in assets). During 1989 to 1991, quality improvement projects have yielded more than $2.5 million annually in increased profits. The customer satisfaction levels have improved significantly and exceeded those of major competitors, (Omachonu: 1994).

FEDERAL EXPRESS

The Federal express service strategies are long term and focus on one mission- 'to provide customers with totally reliable, competitively superior global air or ground transportation of high priority goods and documents that require rapid, time certain delivery'. Federal express realizes that to provide superior service it must continuously improve its service strategies and marching systems.

Some recent improvements done by Federal express: Integrated sales force, standard overnight service, overnight flight services, Power-ship systems (consist of a computer and company devices installed at customer locations), FST clear system

The Federal express has a vision along with the service strategies, systems and an approach to continue improvement that can make the vision real. The Federal express leaders believe that as global communities grow more closely aligned, politically, economically and culturally, the demand for time-definite, reliable cost-efficient transportation of high value goods and documents will grow at a quickening pace. And they intend to offer 'totally, reliable, competitively superior' services in this overnight express market, a market that they feel holds " the greatest potential for long term growth and meaningful returns in their investments", (Oakland: 1989).

# CHAPTER 3

## RESEARCH METHODOLOGY

### 3.1 Research design:

A survey was undertaken and information collected from the representative sample of the population. Hence, frequency tables, correlation, proportions and percentages were used to summarize the data. Frequencies and frequency tables were used to classify and inspect the range of responses and their repeated occurrence.

### 3.2 Population of study:

The population of the study constitutes all commercial banks registered and operating in Kenya. The study sought to solicit responses from relevant stakeholders in this sector. This included the top management and other functional managers within the relevant banks.

### 3.3 The sampling plan:

The sample was arrived by area sampling, the most important form of cluster sampling. The population was divided into groups of elements (provinces) with some groups randomly selected for study. It was however noted that commercial banks in Kenya have their head- quarter in Nairobi. In addition, the relevant respondents (that is, top management and functional managers) can be contacted more effectively via their respective head quarter in Nairobi. Hence, the study was limited to Nairobi. The list was obtained from the Kenya Telephone Directory (Nairobi, 2003).

### 3.4 Data collection method:

Primary data was gathered from the sample population. The data was collected using a structured questionnaire addressed to senior managers and other functional managers.

The questionnaire consisted of both open-ended and closed-ended questions. For part of section C, the questions used to gather data were framed as multiple choices. For all the respondents the questionnaires were sent through the post office, with a post paid return envelope, followed by telephone follow- up with the organization concerned in order to improve the response rate.

The questionnaires consisted of three sections

*Section A:* Section A was used to gather general information about the organization. The questions captured information about ownership, nature of business and size of the company.
*Section B:* The questions in this section were based on information in the literature review. Consequently, the managers' responses were used to determine the level of quality awareness (the scope and extent of developing and implementing the TQM program) and the stage of quality movement (quality eras) to which the organization belongs.
*Section C:* The questions in this section demanded general responses. Consequently they were used to reinforce the responses obtained from section B. In addition, this section was used to gather information regarding the benefits and problems derived or expected to be derived from the TQM approach.

**3.5 Data analysis:**

Data was coded using SPSS application package. It was analyzed using descriptive statistics and cross tabulation techniques. Frequency tables were used to summarize the results in proportions, percentages and Chi- Square. Since the study is exploratory in design, frequency tables, correlation, proportions and percentages were used to summarize the data. Frequency and frequency tables were used to classify and inspect the range of responses and their repeated occurrence. Data in the study was summarized and presented by the use of tables so as to facilitate comparison.

# CHAPTER 4

## RESEARCH FINDINGS:

### 4.1 INTRODUCTION:

This chapter contains research findings from a fully completed questionnaire. The data is summarized and presented in the form of tables to facilitate analysis. This study was limited to commercial banks in Nairobi.

### 4.2 DATA PRESENTATION:

#### 4.2.1 Characteristics of the sample members:

The study sought to find out the nature of the banks. Hence, a number of questions were asked.

**Table 4.2.1.1: Ownership distribution of sample members.**

| | Number of responses | Percentage |
|---|---|---|
| Wholly foreign owned | 2 | 16.67 % |
| Wholly locally owned | 8 | 66.66 % |
| Jointly owned | 2 | 16.67 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

The above table reveals that 16.67% of the responses originated from wholly foreign owned banks, 66.66% from wholly- locally owned and 16.67% from jointly owned banks. This information indicates that most of the respondents fall in the category of wholly locally owned.

**Table 4.2.1.2: Turn over distribution of sample members**

| | Number of responses | Percentage |
|---|---|---|
| Up to Kshs 50 million | 2 | 20 % |
| 51 million- 500 million | 2 | 20 % |
| 501 million- 1 billion | 2 | 20 % |
| 1.1 billion- 5 billion | 3 | 30 % |
| Over Ksh 5.1 billion | 1 | 10 % |
| **Total** | **10** | **100 %** |

*Source: Secondary Data.*

As shown in the table above, 60% of the responses originate from commercial banks with a turn over of up to Kshs 50 million and those with a turn over of between Kshs 51 million and 5000 million and a turn over of between 501 million and 1 billion. 30% of the responses originate from firms with a turn over of between Kshs 1.1 billion and 5 billion, while 10% originate from respondents with a turnover of over Kshs 5.1 billion.

**Table 4.2.1.3: The respondents designation**

| | Frequency | Percentage frequency |
|---|---|---|
| Top management | 3 | 25 % |
| Marketing managers | 2 | 16.67 % |
| Human resource managers | 2 | 16.67 % |
| Finance Managers | 5 | 41.66 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

As shown in Table 4.2.1.3 above, 25% of the respondents represent the responses of top management, while 75 % those from functional managers'.

**Table 4.2.1.3: The quality objective distribution of sample members.**

| Responses | Frequency | Percentage frequency |
|---|---|---|
| Yes | 10 | 83.33 % |
| No | 2 | 16.67 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

Respondents were asked to respond to the questions whether their organizations have a quality objective in place. 83.33 % of the responses indicated that a quality objective exists within their organization. While 16.67 % indicated that their organizations do not have a quality objective.

**Table 4.2.1.4: Distribution of the presence of a distinct quality program**

| Response | Frequency | percentage frequency |
|---|---|---|
| Yes | 7 | 58.33 % |
| No | 5 | 41.67 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

In addition, respondents were asked whether their organization had a distinct quality program. 58.33 % of the respondents indicated that their organizations' have a distinct quality program that ensures quality is maintained, while 45 % indicated that their organization do not have a distinct quality program.

**Table 4.2.1.5: Distribution of the presence of a quality manager/ director**

| Response | Frequency | percentage frequency |
|---|---|---|
| Yes | 7 | 58.33 % |
| No | 5 | 41.67 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

The respondents were asked whether their organization has the position of a quality manager or director. Analyses of their responses deduce that 58.33 % of the respondents are in organizations with the position of a total quality director while 41.67 % do not.

**4.2.2: The extent of practice and scope of developing and implementing the TQM program in the commercial banking sector.**

The study sought to find the TQM (Total Quality Management) practices of the sample members. Hence, a number of questions relating to the fundamental principles of TQM were asked to facilitate this exercise.

**Table 4.2.2.1: Sample members' response to the effect of quality on competition.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 7 | 66.67 % |
| Agree | 5 | 33.33 % |
| Neutral | 0 | 0.00 % |
| Disagree | 0 | 0.00 % |
| Strongly disagree | 0 | 0.00 % |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

The research sought to find the effect of quality on competition. The above table reveals that 66.67 % of the respondents *strongly agree* while 33.33 % *agree* that quality is a valuable competitive weapon. In essence, all respondents agree and prescribe quality as an important competitive weapon.

**Table 4.2.2.2: Sample members' response to corporate philosophy/ mission statement and quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 5 | 41.67 % |
| Agree | 7 | 58.33 % |
| Neutral | 0 | |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

From the above table, 41.67 % of the respondents *strongly agree* that the corporate philosophy/ mission statement should be closely tied to the quality objective. While 58.33 % of the respondents *agree* that quality should be closely tied to the quality objective. Consequently. All the respondents agree that corporate philosophy/ mission statement should be closely tied to the quality objective to enhance organization competitiveness.

**Table 4.2.2.3: Sample members' response to quality as an organization- wide objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 5 | 41.67 % |
| Agree | 6 | 50.00 % |
| Neutral | 1 | 8.33 % |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

The research also sought to find the sample members response on quality as an organization- wide objective. 41.67 % of the respondents *strongly agreed* that quality is an organization- wide objective, while 50 % *agreed* the same. Hence, 91.67 % of the respondents agree that quality is an organization- wide objective, while 8.33 % of the respondents are neutral on the issue.

**Table 4.2.2.4: Sample members' response to the importance of management in realizing the quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 6 | 50 % |
| Agree | 6 | 50 % |
| Neutral | 0 | |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100 %** |

*Source: Secondary Data*

Analysis of the above table reveals that 50 % of the respondents *strongly agree* while 50 % *agree* that the role of top management is important in realizing the organization's objective. Hence, all the respondents agree that the role of top management is important in realizing the quality objective.

**Table 4.2.2.5: Sample members' response to the importance of employees in realizing the quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 6 | 50.00 % |
| Agree | 5 | 41.67 % |
| Neutral | 1 | 8.33 % |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100.00 %** |

*Source: Secondary Data*

The sample members were asked to respond on the importance of employees in realizing the quality objective. The results indicated that 50 % of the respondents *strongly agree* and recognize the important role employees' play in realizing the quality objective. Also, 41.67 % of the respondents *agree*. In essence, 91.67 % of the respondents agree that employees play a fundamental role in the realization of the quality objective. However, 8.33 % of the respondents were neutral on the role played by employees.

**Table 4.2.2.6: Sample members' response on the need for continued improvement of process as key to realizing the quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 5 | 45.45 % |
| Agree | 5 | 45.45 % |
| Neutral | 1 | 9.10 % |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **11** | **100.00 %** |

*Source: Secondary Data*

An analysis of the above table reveals that 45.45 % of the respondents *strongly agree*, another 45.45 % *agree* while 9.1 % are *neutral* in regard to the role played by the continual improvement of processes responsible for converting input into output- for purposes of achieving the quality objective.

**Table 4.2.2.7: Sample members' response on the need for employee training and education in realizing the organization quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 9 | 75 % |
| Agree | 3 | 25 % |
| Neutral | 0 | |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100 %** |

*Source: Secondary Data*

The above table reveals that 75 % of the respondents *strongly agree* while 25 % of them *agree* that employee training and education is crucial in realizing the quality objective. Therefore, 100 % of the respondents' concurred with the fact that employee training and education is important to facilitate the realization of quality in the organization.

**Table 4.2.2.8: Sample members' response to the need for teamwork in realizing the quality objective.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 9 | 75 % |
| Agree | 3 | 25 % |
| Neutral | 0 | |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **12** | **100 %** |

*Source: Secondary Data*

The study sought to find the importance of teamwork in realizing the organizations quality objective. From the above table, 75 % of the respondents *strongly agree*d while 25 % of the respondents *agreed* that teamwork is important in realizing the organization's quality objective. In essence, all the respondents agree that teamwork is crucial in the attainment of the quality objective.

**Table 4.2.2.9: Sample members' response to the need for good leadership in realizing the quality endeavor.**

| Response | Frequency | Frequency (%) |
|---|---|---|
| Strongly agree | 6 | 54.55 % |
| Agree | 5 | 45.45 % |
| Neutral | 0 | |
| Disagree | 0 | |
| Strongly disagree | 0 | |
| **Total** | **11** | **100.00 %** |

*Source: Secondary Data*

In addition, the research sought to find the sample members' response on the need for good leadership in realizing the quality endeavor. The analysis of the above data reveals that 54.55 % of the respondents *strongly agree*, while 45.45 % of the respondents *agree* that good leadership is essential in pursuing the quality endeavor. Essentially 100 % of the respondents agree that good leadership is paramount in realizing the quality objective.

### 4.2.3: Organization's philosophy/ quality era

The study sought to find out the organization's philosophy in regard to quality so as to identify the quality era in which most of these banks belong. This will provide relevant ideas, and indeed answers- where need be- for purposes of realizing substantial benefits from the quality endeavor.

**Table 4.2.3.1: Sample members' response to the primary concern of organization's quality objective**

| Response | Number of responses | Responses (%) |
|---|---|---|
| Detection | 1 | 9.09 % |
| Control | 4 | 36.36 % |
| Co-ordination | 0 | 0.00 % |
| Strategic impact | 6 | 54.55 % |
| **Total** | **11** | **100.00 %** |

*Source: Secondary Data*

Analysis of the above table reveals that 9.09 % of the respondents are in organizations that practice *detection* as the means of achieving the quality objective. On the other hand, 33.36 % of the respondents practice *control* while 54.55 % view quality on a *strategic level.*

**Table 4.2.3.2: Sample members response to their organization's view of quality**

| Response | Number of responses | Responses (%) |
|---|---|---|
| It is a problem to be solved | 1 | 8.33 % |
| It is a problem to be solved, but one that is attacked proactively | 1 | 8.33 % |
| It is a competitive opportunity | 10 | 83.34 % |
| **Total** | **12** | **100 .00%** |

*Source: Secondary Data*

Analysis of the above data reveals that 8.33 % of the respondents view quality as a problem to be solved, while another 8.33 % view quality as a problem to be solved proactively. Similarly, 83.34 % view quality as a competitive opportunity.

**Table 4.2.3.3: Sample members' response to the role their organizations quality professionals play.**

| Response | Number of responses | Responses (%) |
|---|---|---|
| To inspect | 0 | 0.00 % |
| Quality measurement, quality planning and program design | 4 | 36.36 % |
| Goal setting, educating and training, consultative work with other departments and program design | 7 | 63.64 % |
| Trouble shooting | 0 | 0.00 % |
| **Total** | **11** | **100.00 %** |

*Source: Secondary Data*

From the above table, 36.36 % of the responses reveal that the role played by their organization's quality professionals is quality measurement, quality planning and program design. On the other hand, 63.64 % reveal that their quality professional' play the role of goal setting, educating and training, consultative work with other departments and program design. None of the respondents identified their quality professionals with inspection and trouble-shooting.

**Table 4.2.3.4: Sample members' response to who is responsible for quality within their organization.**

| Response | Number of responses | Responses (%) |
|---|---|---|
| All departments although top management is peripherally involved in designing, planning and executing quality policies. | 6 | 50 % |
| Everyone in the organization with top management exercising top leadership | 6 | 50 % |
| Inspection department | 0 | 0 % |
| **Total** | **12** | **100 %** |

*Source: Secondary Data*

From the above table, 50 % of the respondents reveal that all departments, in their organization, are involved in the pursuit of quality but top management is peripherally involved in designing, planning and executing quality policies. Similarly, 50 % of the respondents reveal that everyone in the organization is responsible for quality within their organization, with top management exercising top leadership.

## 4.2.4: TEST OF INDEPENDENCE BETWEEN THE USE OF TQM, AND OTHER RELEVANT VARIABLES

The Chi- square test of independence was carried out to establish if there is any relationship between the use of TQ M and other relevant variables. A Chi- square value fitness of good (X) was then calculated and this value was compared to the critical value (X*= 9.45) at 95 % significance level obtained from the Chi- square table. Where the Chi- square value calculated is higher than that of the Chi- square tables, the null hypothesis was rejected (Table 4.2.4.1).

In this analysis, the following hypothesis was tested:

Ho: The use of TQM is independent of X1, X2, X3, X4 and X5.

H1: The use of TQM is not independent of X1, X2, X3, X4 and X5.

**Table 4.2.4.1:**

| | Variable: | Findings: | Conclusion: |
|---|---|---|---|
| X1 | Good leadership | X*= 9.49< X= 20.87 | There is a 95% confidence that TQM is not independent of good leadership in the organization. |
| X2 | Role of employee | X*= 9.49< X= 13.83 | There is a 95% confidence that TQM is not independent of the role of employees in the organization |
| X3 | Employee training and education. | X*= 9.49< X= 25.5 | There is a 95% confidence that TQM is not independent of employee training and education. |
| X4 | Teamwork | X*= 9.49< X= 25.5 | There is a 95% confidence that TQM is not independent teamwork in the organization. |
| X5 | Process improvement | X*= 9.49< X= 12.18 | There is a 95% confidence that TQM is not independent of process improvement. |

*Source: Secondary Data*

Interpretation:

From the above table, there is a 95% confidence that TQM is not independent of: Good leadership, employee's participation, and employee training and education, teamwork and process improvement. Hence, reject the null hypothesis (Ho) and accept the alternative (H1).

Respondents reveal that *good leadership* plays an important role of steering the whole organization in the direction of total quality. Good leaders motivate and clearly communicate the TQM objective. Since TQM is an organization- wide objective, *employee participation* is crucial. Consequently, the roles of employees within the organization must be defined clearly. In addition, management must create conducive environment that encourages employee participation and creativity. *Employee training, education and development* on the other hand is important in making employees aware of the importance of quality, principles of process improvement and the realities of changing markets and circumstances for their organization. In essence, skill transfer is inevitable in a quality driven culture. Since the objective of TQM is to ensure that all members of an organization are working together on company- wide quality improvement, *teamwork* is inevitable. Each part within the organization must work properly together towards the same goals, recognizing that each person and each activity affects and is in turn affected by others.

# CHAPTER 5

## CONCLUSION

### 5.1 Discussions and comments

The importance of quality shows signs of continued rapid increase in the present and the foreseeable future. Corporate management is becoming committed to introducing a quality approach into their firms with the objective of an error free work through management commitment and employee involvement and empowerment. Quality must be a key goal in all the company' operations. It is important that customers perceive quality in their contacts with all aspects of the company. The following requirements are necessary:

- Ensure that the company is committed and each step of the process is identified, carefully planned before implementation.
- Develop a TQM strategy to address long-term objectives.
- Adopt a company-training program.
- Provide continuous feedback and open channels of communication.
- Empower employees to make decisions in customer interactions and in improving the process, and establish concrete goals for each step.
- Focus totally on customers and their needs.
- Continuous improvement should be a way of life.

This study examined the practice of TQM by commercial banks by analyzing a number of principles relevant to TQM. Responses of the sample members provided data from which inferences about TQM in the banking sector were made. From the information derived from the research exercise, it is clear that quality is an important competitive weapon in the banking sector. With the exception of a few responses, all respondents either agreed or strongly agreed to a number of principles critical in realizing the quality endeavor- hence the TQM approach.

### 5.2 Recommendations

Further studies can be done by examining the reported returns by firms that pursue to undertake the TQM approach, in comparison to those, which do not. This will go a long way in reinforcing the fact that TQM is an important corporate strategy.

Also studies can be undertaken to establish if other sectors, besides the manufacturing sector, employ the TQM strategy and to what extent they do so. This will provide additional and relevant information to the study of TQM.

### 5.3 Limitations of the study

A number of limitations can be linked to the study. First and foremost, the study was limited to commercial banks with their operations in Nairobi. In addition, responses were selectively sought from management. Time constraints hindered the researcher from incorporating the views of other respondents such as employees and customers.

Moreover, the response rate was very low- at 33.33 %- as summarized in table 5.2.1 below.

Table 5.2.1: Response rate

Out of a sample size of 48 commercial banks the following responses have been received

| | Positive responses | Apologies |
|---|---|---|
| Top management | 4 | 8 |
| Human resource managers | 3 | 3 |
| Marketing managers | 3 | 2 |
| Finance managers | 6 | 5 |
| **Total** | **16** | **18** |

*Source: Secondary Data*

*Positive response rate in percentage:*

- Top management: 8.33 %
- Human resource managers: 6.25 %
- Marketing manager: 6.25 %
- Finance manager: 12.5 %

Total response rate: 33.33 %

Inadequate finance hindered the researcher from enlarging the research study, to include commercial banks from other parts of the country.

# APPENDICES:

**APPENDIX 1: The table below shows a list of the commercial banks under study:**

| | |
|---|---|
| (01) ABN- Amro Bank | (25) First American Bank (K) ltd |
| (02) African Banking Corp. ltd | (26) Giro commercial Bank ltd |
| (03) Akiba Bank ltd | (27) Guardian Bank ltd |
| (04) Bank of Baroda (K) ltd | (28) Habib Bank A.G Zurich |
| (05) Bank of India | (29) Habib Bank ltd |
| (06) Barclays Bank (K) ltd | (30) Imperial Bank ltd |
| (07) Biashara Bank (K) ltd | (31) Industrial Development Bank ltd |
| (08) Bullion Bank ltd | (32) Investment and mortgage Bank ltd |
| (09) CFC Bank (K) ltd | (33) Kenya commercial Bank ltd |
| (10) Charterhouse Bank Ltd | (34) K-rep Bank ltd |
| (11) Chase Bank (K) ltd | (35) Middle East Bank (K) ltd |
| (12) CITI Bank NA | (36) National Bank (K) ltd |
| (13) City Finance Bank ltd | (37) National industrial Credit Bank ltd |
| (14) Commercial Bank of Africa ltd | (38) Paramount Bank ltd |
| (15) Consolidated Bank (K) ltd | (39) Prime Bank ltd |
| (16) Co-operative Merchant Bank | (40) Southern Credit Banking corp. ltd |
| (17) Co-operative Bank (K) ltd | (41) Stanbic Bank (K) ltd |
| (18) Credit Agricole Indosuez | (42) Standard Chartered (K) Bank |
| (19) Credit Bank ltd | (43) The Delphis Bank ltd |
| (20) Development Bank (K) ltd | (44) Trans-national Bank ltd |
| (21) Diamond Trust Bank (K) ltd | (45) Trust Bank ltd |
| (22) Dubai Bank (formerly Mashreq Bank) | (46) Universal Bank ltd |
| (23) Equatorial Commercial Bank ltd | (47) Victoria Commercial Bank ltd |
| (24) Fidelity Commercial Bank ltd | (48) Fina Bank (K) ltd |

**APPENDIX 2: Cover letter:**

Grace Wanjugu Githaiga
P.O Box 34204,
Nairobi.
Tel: (057) 44292/ 0722-645524

27/06/2003

To whom it may concern.

Dear Sir/ Madam,

REF: Request for research data- Total Quality Management practice and performance in the commercial banks.

I am a post-graduate student currently finalizing on an MBA program from the University of Nairobi. And as one of the requirements leading to the degree of Masters in Business Administration, I am required to undertake a project in my area of specialization. Consequently I am undertaking a research study on the Total Quality Management practice and performance in the Kenyan commercial banks.

I would therefore greatly appreciate if you could provide the requested information in the questionnaire at your earliest convenience. All responses will be handled in strict confidence and will only be used for research purposes.

Your Sincerely,

Grace W. Githaiga.

## QUESTIONNAIRE:

**SECTION A:**

**1.** What is the nature of your business?

.....................................................................................................................

.....................................................................................................................

.....................................................................................................................

**2.** What is the ownership of the company? (Tick where appropriate).

Wholly foreign owned [ ]

Wholly locally owned [ ]

Jointly owned [ ]

**3.** Please describe your annual turnover

Up to Ksh 50 million [ ]

51 million- 500 million [ ]

501 million- 1 billion [ ]

1.1 million- 5 billion [ ]

5.1 billion and above [ ]

**4.** Do you have a **quality objective** in place?

**5.** Do you have in place a distinct **quality program** that ensures quality is maintained? (Tick one)

Yes [ ]

No [ ]

**6.** Do you have the **position** of the Total quality director?

Yes [ ]

No [ ]

If answer is '**no**' to question 5 above what is the title of person in charge of the overall quality function in your organization?

Title: ...................................................................................................

**SECTION B:**

Listed below are statements dealing with various issues of Total Quality Management (TQM). Please tick in the appropriate box to indicate the extent you consider the following issues as applicable to your organization.

**1.** Quality is a valuable competitive weapon in your industry/ sector.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**2.** An organization's corporate philosophy or mission statement is and should be closely tied to the quality objective.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**3.** Your organization's quality objective is an **organization- wide** endeavor, involving everyone in ensuring quality is achieved.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**4.** Top, functional and branch managers play a significant role in ensuring quality is achieved in your organization.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**5.** All employees play a significant role in ensuring that quality is attained.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**6.** The process used to convert inputs to output (if any) requires continual improvement in order to realize the quality objective.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**7.** Employee training and education is important to your organization, in realizing your organization quality objective

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**8.** Team work is important in realizing your organization's quality objective.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**9.** Good leadership is/ has been essential in pursuing the quality endeavor in your organization.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] | [ ] |

**10.** What is the primary concern of your organization's quality objective? (Tick one)

| | |
|---|---|
| (a) Detection | |
| (b) Control | |
| (c) Co-ordination | |
| (d) Strategic impact | |

**11.** What is your view of quality? (Tick one)

| | |
|---|---|
| **(a)** It is a problem to be solved. | |
| **(b)** It is a problem to be solved, but one that is attacked proactively | |
| **(c)** It is a competitive opportunity. | |

**12.** What is the role of your organization's quality professionals'? (Tick one)

| | |
|---|---|
| (a) To inspect | |
| (b) Quality measurement, quality planning and program design. | |
| (c) Goal setting, educating and training, consultative work with other departments and program design. | |
| (d) Trouble shooting. | |

**13.** Who is responsible for the quality in your organization? (Tick one)

| | |
|---|---|
| **(a)** All departments although top management is peripherally involved in designing, planning and executing quality policies. | |
| **(b)** Everyone in the organization with top management exercising top leadership | |
| **(c)** Inspection department | |

**14.** How would you rate the quality appreciation level within your organization for the following categories of staff? (Tick one)

- **Management**: Excellent [ ]
  Good [ ]
  Fair [ ]
  Poor [ ]

Please explain your rating:

.......................................................................................................................

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- **Employees**: Excellent [ ]
  Good [ ]
  Fair [ ]
  Poor [ ]

Please explain your rating:

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**SECTION C:**

**1.** What is your organizations quality objective?

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**2.** How do your customers' define quality in respect to your product/ service?

Please explain

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**3.** Does your organization have a **formal strategic plan** for quality i.e. TQM program? (Tick one)

Yes [ ]

No [ ]

Please explain your answer

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**4.** Does your organization have a method of ascertaining whether quality is achieved? (Tick one).

Yes [ ]

No [ ]

Please identify the method(s) used.

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**5.** Which of the following elements affect quality significantly in your organization (either positively or negatively) (Tick where appropriate)

Management [ ]

Employees [ ]

Product/ service design [ ]

Processes [ ]

Facilities and equipment [ ]

Materials [ ]

Vendors [ ]

Please identify other elements (if any)

……………………………………………………………………………………………………

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6. In developing and formulating your organization's quality objective were the following parties involved? (Tick one)

   - **Top management** (i.e. CEO, MD, GM, regional/ area manager)

Yes [ ]

No [ ]

Please explain your answer

……………………………………………………………………………………………………

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- **Other managers**

Yes [ ]

No [ ]

Please explain your answer

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- **Employees**

Yes [ ]

No [ ]

Please explain your answer

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- **Customers**

Yes [ ]

No [ ]

Please explain your answer

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- **Suppliers/ vendors**

Yes [ ]

No [ ]

Please explain your answer

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**7.** Did your organization face any problems in the process of developing and implementing the quality program? (Tick one)

Yes [ ]

No [ ]

Please identify the problems encountered in the process of developing and implementing your quality program

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**8.** Have you realized or are you expecting any benefit from your quality program? (Tick one)

Yes [ ]

No [ ]

Please identify the benefits derived from the quality program implemented by your organization

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# STRATEGIC RESPONSES OF KENYA HIV/AIDS BUSINESS COUNCIL MEMBER FIRMS TO THE HIV/AIDS PANDEMIC



By

HELEN MUTHONI MAGUTU

A Management Research Project submitted in partial fulfillment of the requirements for the Masters in Business Administration Degree (MBA), Department of Business Administration, University of Nairobi.



August, 2005

## DECLARATION

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

Signed ---------------------------------------------------

Date 17 | 10 | 05 ----------------------------------------

Magutu, Helen Muthoni

Registration Number: D61/P/9024/01

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

Signed ---------------------------------------------------

Date 17/10/2005 -------------------------------

Dr. Ogutu, Martin

Chairman of Business Administration Department

University of Nairobi

# DEDICATION

To my husband Nathan and my two beautiful daughters Nicole and Natalie. For your enduring love and support.

# ACKNOWLEGDEMENTS

This study was inspired by the work of the Kenya HIV/AIDS Business Council in supporting businesses to set up workplace HIV/AIDS interventions. Special thanks go to all the staff of the Kenya HIV/AIDS Business Council for the tremendous support which they gave me during the research period. I particularly thank George Wainaina, the Programme Manager for consenting to the research and his contributions.

Special thanks to God for giving me the strength and patience to be able to carry out the project.

I especially thank Dr. Martin Ogutu, my supervisor who patiently guided me throughout the research period.

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Lastly, my parents Elias and Teresa Magutu for the care and support they have given me to enable me to be what I am today.

For all others whom I cannot thank in person, I say a big THANK YOU

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## ACRONYMS USED IN THE STUDY

| | |
|---|---|
| AIDS | Acquired Immune Deficiency Syndrome |
| ARVs | Antiretroviral drugs |
| CEO | Chief Executive Officer |
| FHI | Family Health International |
| FKE | Federation of Kenya Employers |
| HIV | Human Immunodeficiency Virus |
| ILO | International Labour Organization |
| IPPFAR | International Planned Parenthood Federation Africa Region |
| MD | Managing Director |
| MSD | Merck Sharpe and Dohme |
| NACC | National AIDS Control Council |
| NASCOP | National AIDS and STI Control Program |
| RAAAPP | Rapid Assessment, Analysis and Action Planning Process |
| VCT | Voluntary Counseling and Testing |
| WHO | World Health Organization |

## ABSTRACT

The study looked into the strategic responses of the Kenya HIV/AIDS Business Council member firms to the HIV/AIDS pandemic. A cross sectional census survey was conducted. The population of interest was the registered sixty five member firms of the Kenya HIV/AIDS Business Council. The data was collected by use of a semi-structured questionnaire which was administered via E-mail and the drop and pick later method, which is a variant of the conventional mail survey, to the CEOs and MD's of the various organizations. Only 34 responded to the questionnaire. The data was analyzed using descriptive statistics which included mean scores and percentages.

The study revealed that most of the firms studied were responding actively to the HIV/AIDS pandemic. Some of the interventions the firms had put in place were setting up a workplace HIV/AIDS program and coming up with a workplace HIV/AIDS policy. These strategic responses have however been developed in the last few years implying that the firms took long to realize that HIV was not just a medical issue but a business issue as well. The main challenges to these interventions were cited as lack of adequate resources and employee commitment.

The Kenya HIV/AIDS Business Council has played a major role in mobilizing these private sector firms to come up with strategic responses to fight the HIV/AIDS scourge however, efforts must be made to urge organizations to scale up the fight against the HIV/AIDS pandemic as the scourge is ruining the socio-economic fabric of the country.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

### 1.1.1 Environmental Challenges to Firms

Firms have to relate effectively with the environment for their survival and prosperity. This is because all organizations are environment serving or environment dependent. No organization operates independently, firms are open systems that interact with and depend on its specific environment while remaining ever aware of the potential influences of its general environment (Coulter, 2002). Organizations must adapt their practices to the changing expectations of the society in which it operates. As values, customs, and tastes change so too must organizations. This applies to both their products and service offerings and their internal operating policies. A mismatch with the environment affects the flow leading to problems with the affected components of the environmental inputs and outputs.

The organizational environment is the general business setting created by the economic, technologic, political and social forces in which the firm operates in. An organization's external environment includes economic forces, socio-cultural, demographic, political and technological forces while its internal environment include the organization's systems, policies, resource capabilities and corporate culture (Pearce and Robinson, 1991).

A wide range of environmental influences can affect organizational strategies and performances. The PESTEL framework categorizes environmental influences into six main types political, economic, social, technologic, environmental and legal. It is particularly important in looking at the future impact of environmental factors which may be different from their past impact. Understanding how PESTEL factors might impact on and drive change in general is important but managers need to understand differential impact of these external influences and drivers on particular industries and individual organizations (Johnson and Scholes, 2004). The PEST analysis provides a useful starting point to any analysis of the general environment surrounding an organization (Lynch, 1997).

SWOT analysis summarizes the key issues from the business environment and the strategy capability of an organization that are most likely to impact on strategy development. This is useful as a basis against which to judge future courses of action. It aims at identifying the extent to which the current strengths and weaknesses are relevant and capable of dealing with the threats or capitalizing the opportunities in the business environment. Opportunities enhance or favour achievements of objectives while threats hinder or disfavour the achievement of objectives.

The external environment is dynamic. It changes continuously, each time, posing new challenges, in terms of new opportunities and threats. This dynaminism is described as environmental turbulence, which is a combined measure of the changeability and predictability of the firm's environment.

**1.1.2 HIV/AIDS Pandemic**

Human Immunodeficiency Virus (HIV)/ Acquired Immunodeficiency Syndrome (AIDS) is rapidly decimating the productive population of the nation and thereby causing havoc to its socio-economic fabric. The magnitude of HIV/AIDS is so high that the Government's limited resources are unable to cope with the situation. In order to address issues of lost workplace productivity, escalating health-care costs and shortened lifespan, which are direct consequences of HIV, the private sector has come up with comprehensive responses to address HIV/AIDS in the workplace and beyond (Tole, 2001)

Kenya has been hit hard by the HIV/AIDS pandemic with a prevalence rate of 6.7% (KDHS, 2004) and over 2.2 million people estimated to be HIV positive (Nascop, 2004). The workforce is placed at increased risk, with the pandemic disproportionately affecting people in their most productive years (Noordwijk, 2003).Largely due to AIDS, the life expectancy in Kenya dropped from 60 years in 1990 to 45.5 years in 2002. HIV/AIDS constitutes a grave epidemic that permeates every aspect of Kenya's development ( RAAAPP, 2004).By the end of 2005 Kenya's gross domestic product is projected to be 14.5% lower than it would have been in the absence of AIDS while AIDS is forecast to cost the country close to 1.5% of economic growth annually (USAID, 1999). A study by Family Health International (FHI) found that HIV/AIDS could increase labour costs for some businesses in Kenya by 16% by the end of the year 2005. The effect of HIV/AIDS on social and economic activities in Kenya has changed the paradigms upon which business, both small and big, is conducted (Chao, 2004).

There is fear and stigma surrounding HIV/AIDS especially in the workplace where workers are in constant contact with one another and have to live with fear of getting infected at any time. Such stigma and fear do not augur well for industrial relations in the workplace, and tend to impede efficiency by soaring interpersonal relations thus hindering productivity (FKE, 2004).

The private sector can play an important role in curbing further spread of HIV/AIDS.

The utilization of corporate resources, such as management and marketing know how, distribution and suppliers networks and funds is of crucial importance to effectively prevent HIV/AIDS in the workplace. This burning issue of national importance needs to be tackled jointly by all stakeholders if the battle is to be won (IPPFAR, 2004). Businesses can minimize the socio-economic costs of the AIDS epidemic by educating workforces, implementing non-discriminatory policies and partnering with the public sector and civil society to provide medical care to HIV-positive employees. By doing so, businesses are able to promote the important message that people living with HIV/AIDS can have positive and productive lives.

### 1.1.3 Kenya HIV/AIDS Business Council

The HIV/AIDS Business Council was founded in the year 2000 at the initiative of Unilever Kenya. It works in collaboration with non-governmental and community-based organizations to design and implement HIV/AIDS programs at the workplace and in the community. The HIV/AIDS Business Council is affiliated to the Global Business coalition on AIDS, which has its headquarters in New York and works closely with the Kenya National AIDS Control Council.

HIV/AIDS Business Council is a rapidly expanding alliance of 65 Kenyan businesses dedicated to combating the AIDS epidemic in the workplace and in communities in which they operate (see appendix 2 for the HIV/AIDS Business Council members)

HIV/AIDS Business council supports its member firms in implementing comprehensive HIV/AIDS workplace responses. It advocates that to be effective, any workplace HIV/AIDS program needs to be integrated and comprehensive. The Business council supports various HIV/AIDS interventions in the workplace.

The establishment and implementation of a non-discriminatory policy is the cornerstone of any effective HIV workplace program, underpinning campaigns to promote the take up of voluntary counseling and testing as well as treatment. Companies should state clearly that their employees will not be discriminated against on the basis of their actual or perceived HIV status. Policies should also guarantee the confidentiality of infected employees. The Business Council advocates strongly against mandatory and pre-employment testing, as both unethical and counter productive.

Companies have learned that it is not enough simply to develop policies, to be effectively implemented they need the active endorsement of senior management centrally, regionally and locally. A number of companies have developed specific campaigns tackling stigma and discrimination in the workplace. As well as fostering a more supportive workplace environment, the adoption of non-discriminatory policies wins a clear public commitment that helps to counter the fear and stigma that still typify many community responses to the epidemic. The involvement of trade unions and employee representatives in the formulation of policies has been important in ensuring employee support.

The council believes that workplace prevention and education programs are the greatest responsibility and opportunity for companies in tackling HIV/AIDS. In many companies, accurate workplace programs will be the only source of accurate information on HIV/AIDS available to employees and their families. Company education programs need to set out clearly how HIV can and cannot be contracted so that staff can arm themselves with information to protect themselves. Such programs play a vital secondary role in fostering more supportive working environments for employees who may be infected with HIV.

Companies should incorporate strategies into their HIV/AIDS programs and policies that are sensitive to the specific needs of female and male workers. Gender specific approaches have proven to be effective in curtailing the spread of HIV/AIDS and sexually transmitted infections.

Effective HIV prevention requires more than awareness. Successful company-based HIV prevention programs have also included condom distribution (often in special dispensers in company facilities or distributed directly to employees with wage slips), as well as diagnosis and treatment of sexually transmitted infections. Some companies have supported their own programs through collaboration with local community-based organizations or public sector health services.

Voluntary Counseling and Testing (VCT) forms the primary entry point for successful prevention and testing programs. Because of the sensitivities, need for confidentiality and potential concerns of staff, VCT can also be the hardest component of a workplace strategy to implement. Yet poor take up of VCT by staff, by definition, significantly reduces the number of staff taking advantage of other company HIV services, particularly treatment. It is therefore crucial for companies to develop active campaigns to encourage their employees to seek VCT. Companies can offer VCT to staff either directly through their own in-house clinical services, or through contracted out services provided confidentially either by insurance schemes or local community-based organizations. For workplace VCT campaigns to be effective, they need to be supported by active non-discriminatory policies.

Businesses can help their employees living with HIV/AIDS continue to contribute to the business for as long as possible, by providing a range of care and support services through company clinics or in partnership with other healthcare providers. For some, this is an extension or an expansion of existing provision, whether in-house or through health insurance, to employees and their immediate families. Services extend to the treatment of opportunistic infections, particularly TB, psychosocial support, palliative care, home-based care and HIV treatment through antiretroviral therapy. The implementation of combination anti retroviral therapy has transformed the prognosis of HIV infection during the past decade (MSD, 2005).

Monitoring and Evaluation is traditionally an essential part of public health interventions to demonstrate the effectiveness of any given program. However, by focusing on the urgent need to implement programs, businesses have not always paid sufficient attention to the documentation and recording of process and outcomes. Companies have developed indicators to suit their own individual business environment, such as rates of sexually transmitted infections, number of staff accessing services such as VCT, condom distribution and regular KAP (Knowledge, Attitude and Perceptions) studies.

Any workplace program should be of necessity also have a community involvement element. Businesses need to respond to the growing demand from the community in the area of HIV/AIDS. As good corporate citizens, businesses should invest some of their community involvement budgets into HIV/AIDS.

The success of HIV/AIDS programs in the private sector depends on how it implements these interventions. The HIV/AIDS Business Council assists its member firms to successfully put these interventions in place.

## 1.2 The Statement of the Problem

HIV/AIDS affects all parts of the society. The global HIV/AIDS pandemic is the worst infectious disease crisis to confront the World since the bubonic plague halved the population of Europe in five years since its arrival in 1347(FHI, 2001). Developing, financing and implementing programs to deal with the pandemic in the private sector are of paramount importance since the scourge is affecting productivity in the workplace. Businesses operate in a highly competitive environment and therefore maintaining optimal productivity is crucial for the success and prosperity of the firms.

Adequate resources remain a key challenge for success in fighting the pandemic. While a growing number of effective clinical and behavioral interventions are being made available to reduce HIV transmission and improve care and support for those living with HIV, the resources available for the Kenyan Government to effectively implement these interventions is insufficient. The private sector needs to establish or strengthen the existing HIV/AIDS coalitions to combat the disease.

Several studies have been done on the responses of the private sector to the HIV/AIDS pandemic. Murambi (2002) carried out a research on the human resource policy response to the HIV/AIDS pandemic targeting the insurance firms in Kenya. Muraah (2003) investigated how the Kenyan pharmaceutical firms have responded to the challenges of the HIV/AIDS pandemic. Rarieya (2001) studied the social responses of pharmaceutical firms to the HIV/AIDS pandemic. Maina (2004) did a survey of the business challenges of private hospitals in Nairobi to the HIV/AIDS pandemic.

None of these studies looked at the strategic responses to the HIV/AIDS pandemic in the private sector by the Kenya HIV/AIDS Business Council member firms. While the other studies are industry specific, this study is unique in that it studies firms from different industries in the private sector to come up with the pattern of the multi-industry response to the HIV/AIDS pandemic. The Kenya HIV/AIDS Business Council member firms have put comprehensive interventions in place to respond to the HIV/AIDS pandemic, no documentation on what these firms are doing has been done. This study will establish and document the strategic responses the HIV/AIDS Business Council member firms have put in place to address the pandemic.

This research would be of value to managers of private firms and other partners, that is, the NGO's and the public sector , in coming up with strategic responses to the HIV/AIDS pandemic, in order to effectively come up with interventions and programs to combat the scourge.

## 1.3 Objective

The objective of the study is to establish the strategic responses that the HIV/AIDS Business Council member firms have put in place to address the HIV/AIDS pandemic.

## 1.4 Importance of the Study

It is expected that the findings of this study will be important to the following – First, HIV/AIDS Business council will use the findings of this study to evaluate itself and forge forward with its new strategies and also as a means of documenting the challenges faced in tackling the HIV/AIDS pandemic. Second, other partners working towards combating HIV/AIDS for example NGO's who can draw important lessons on various strategies used by the private sector in combating the pandemic. Third, to the public sector, in formulating policies which will be necessary in combating the HIV/AIDS disease. Finally to the scholars, the study will lay a foundation of understanding the strategic responses to the HIV scourge in the private sector and form a basis for further research. It will also contribute to the available literature in the Strategic Management field.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Environment and Strategy

Johnson (2004) defines strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. Strategy can also be defined as the pattern or plan that integrates an organization's major goals, policies, and action into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents (Mintzberg, 1991). Since by definition the formulation of strategy is performed with the future in mind, executives who take part in strategic planning process must be aware of those aspects of their company's environment especially susceptible to the kind of change that will affect their company's future.

According to Porter (1985), companies that focus myopically on improving organizational effectiveness jeopardize long-term success when they fail to develop sustainable strategy. He states that the essence of strategy is choosing to perform activities differently than rivals do and that companies must consider strategic positioning and strategic fit when crafting strategies.

Strategy can be seen as the matching of resources and activities of an organization to the environment in which it operates. This is known as the search for strategic fit, which is developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these. Two models have been developed based on the fit framework, the competitive forces model and the strategic conflict model. Porter (1980) advanced the competitive forces model, whose basis is the need to align the organization to its environment, a key aspect of which is the industry in which it operates.

Shapiro (1989) popularized the strategic conflict model, which advances the view that a firm can achieved increased profits by influencing the behaviour and actions of its rivals therefore in effect manipulate the market environment. The superiority of a firm largely depends on its ability to outwit its rivals

Strategy can also be seen as building on or stretching an organization's resources and competences to create opportunities. The stretch framework proposes that strategy development should be based on leveraging of the resources and competences of the organization to provide competitive advantage and to yield new opportunities. Coined by Wenefolt (1984), the resource based theory advances the idea that strategy of a firm is a function of the complement of resources held by a firm. Companies have different collection of resources and competitive advantage is created when resources that are exclusively owned by the firm are applied to develop unique competencies.

## 2.2 Strategic Responses to Environmental Challenges

Strategic management allows organizations to be efficient, but more importantly it allows them to be effective. The strategic management process results in decisions that can have significant long lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be significantly exceedingly difficult if not impossible to reverse. Strategists in successful organizations take the time to formulate, implement and then evaluate strategies deliberately and systematically (David, 1997).

According to Strickland (2003), the particular business opportunities a firm has and the threats to its position that it faces are key influences on strategy. Strategy needs to be deliberately crafted to capture some or all of a firm's best growth opportunities, especially the ones that can enhance its long-term competitive position and profitability. Likewise strategy should be geared to providing a defense against external threats to the firm's well-being and future performance. For strategy to be successful, it has to be well matched to the firm's opportunities and threats. Successful strategists aim at capturing a company's best growth opportunities and creating defenses against threats to its competitive position and future performance. Effective strategy making requires a thorough understanding of the strategic issues a company faces.

One of the toughest strategic leadership tasks is keeping the organization innovative and responsive to changing conditions. In addition to strategic responsiveness, the responsiveness of the firm's organizational capability must also be matched to the environmental turbulence. Strategic success is based on how an organization responds to the environment and its internal capability

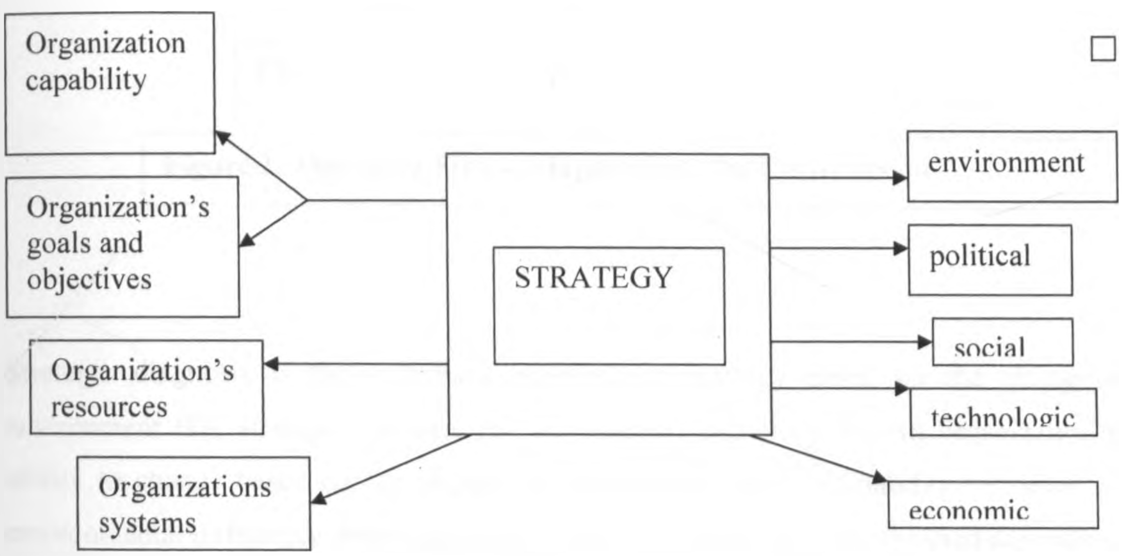


**Figure 1:The Link Between the Organization and the Environment**

The environment and the internal capability of a firm are always changing, organizations need to match these changes to their strategy.

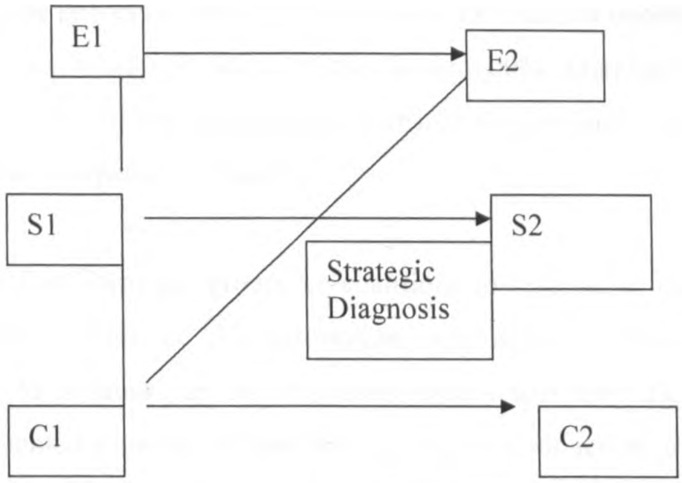


**Figure 2: Managing Firms Adaptation to the Environment**

Strategic diagnosis is the systematic approach to strategy based on the changing environment (E), strategic response (S) and internal capability (I). An organization's ability to change based on the degree of changeability and predictability i.e. level of environmental turbulence determines its success. A strategic gap is established depending on the degree of change. For highly turbulent environments organizations need to utilize their resources and capabilities to establish a rapid response so as to remain successful.

Organizations need to learn and rapidly adapt their systems to fit in the environment, so as to maintain competitive advantage. The environment is dynamic; this does not mean that organization's, which operate in this dynamic environment, will remain unsuccessful. Organizations should utilize their internal capabilities and strategic responses to ensure that they remain successful (Johnsons and Scholes 2004). Real time strategic response is important since Organizations respond to events as they occur and with the rapidity that is required.

Strategic success for organizations lies in their ability to match the environmental changes to their internal capabilities. Organizations should be able to utilize the competences that they have to match the environment to ensure for success and prosperity. During the process of strategy formulation the future is uncertain, no one firm can boast of knowing what will occur in the future 100%, therefore strategic issues management is important in any organization to ensure for continuity of the firm and for the firms to maintain competitive advantage.

Organizations can form strategic groups or coalitions to respond to the environmental challenges. Strategic groups are the distribution or grouping of firms, which pursue similar responses to address the environmental forces that they face (Pitts, 2003). Coalitions are agreements among at least three actors on joint action; often some of the actors have only indirect relationships with each other. Quite diverse organizations may form a coalition around a common cause (Newman, 1989).

Strategic responsiveness can be institutionalized within a firm by creating a change-supporting environment within a firm (Ansoff, 1990). Every strategic action a company takes should be ethically acceptable (Strickland, 2003). An organization's duty to employees arises out of respect for the worth and dignity of individuals who devote their energies to the business and depend on the business for their economic well-being.

## 2.3 Operational Responses

Responding to changing conditions is an organization wide task, particularly in large corporations. Crafting still narrower and more specific approaches and moves are aimed at supporting functional and business strategies and at achieving operating unit objectives (Strickland, 2003).

According to Ansoff (1990) operating capability is geared to support profit making, efficiency serving and change controlling behaviour. Operations management is an important element of corporate strategy. Operations strategy aims at providing manufacturing and related processes that will give the organization competitive advantage over competition. Operations management is also defined as the contribution's ability to add value to its goods and services (Lynch, 1997).

Operational strategies are concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people (Johnson, 2004). In most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the corporate level. The integration of operational decisions and strategy is therefore of great importance.

## 2.4 HIV/AIDS Impact on Business

HIV/AIDS remains the most pressing strategic concern of many businesses in Africa (Wainaina, 2005). The International Labour Organization (ILO) code of practice on HIV/AIDS was published in 2002. Compliance with the code is required of all employers, a stand that has been adopted by the Federation of Kenya Employers (FKE). The key principles of the code are that HIV/AIDS is a workplace issue and should be treated like any other serious illness in the workplace, non-discrimination of the infected persons, prohibition of compulsory testing of employees and maintaining high levels of confidentiality of worker's personal data.

The magnitude of the pandemic makes it imperative that all sectors of the society i.e. the public, the private, government and local communities be involved in managing the crisis (Maina, 2004). HIV/AIDS is also a general threat to the workplace and productivity and unless organizations address it in earnest, it will cost them dearly (Rau, 2002). Firms need to measure impact of HIV/AIDS on productivity to guide the type and extent of strategy implementation to protect both Human resource and business (Muraah, 2003). According to Murambi (2002), HIV/AIDS may not affect the organizations today, if no sound policies are put in place to counter its negative effects, the future for these organizations is bound to be grim, given the subsequent imbalance in the labour market.

Figure 3 gives a possible future scenario if adequate measures are not taken by organizations today.

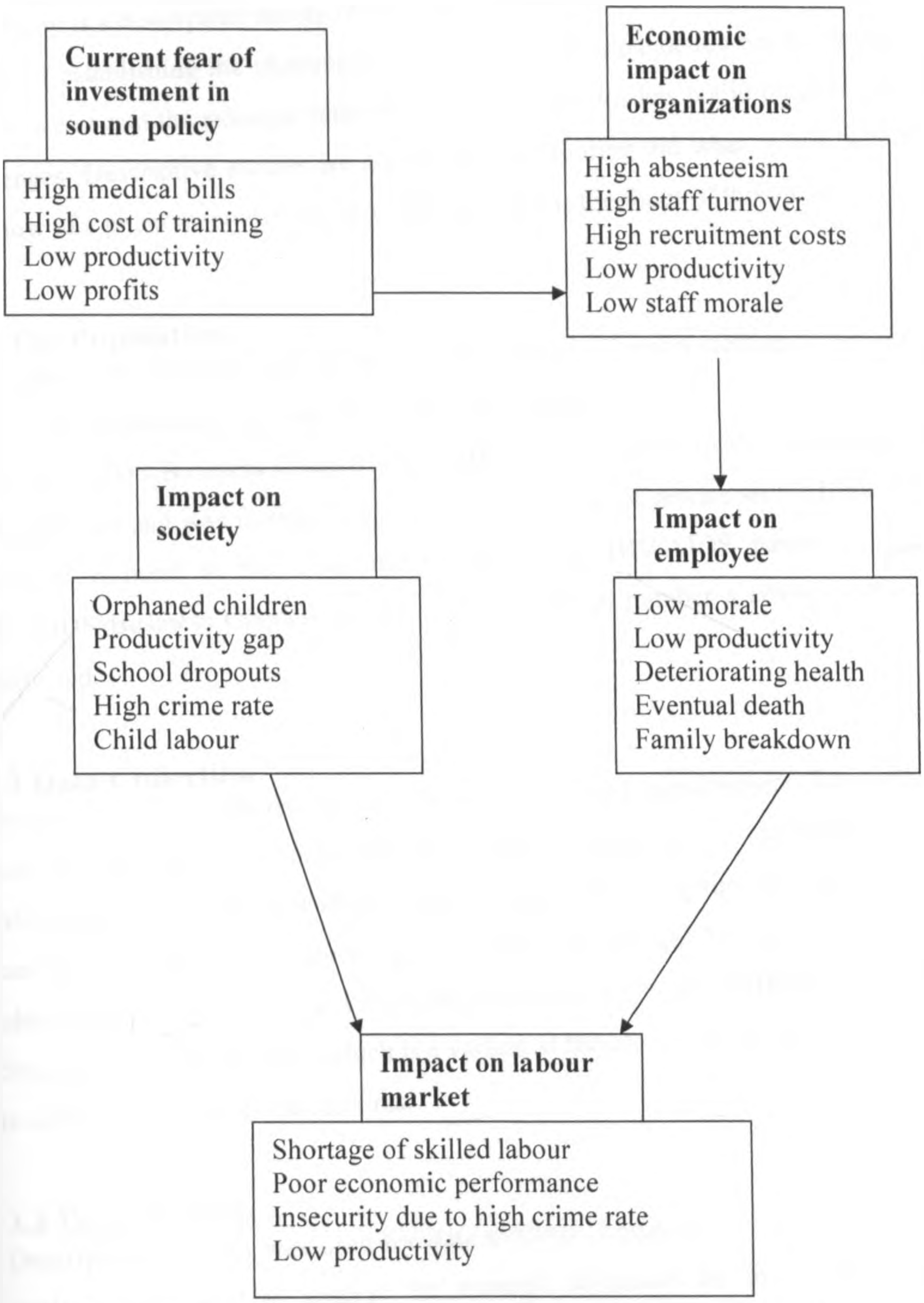


**Figure 3: Long-term Impact of HIV on Organizations**

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

This study is a descriptive survey of the HIV/AIDS Business Council member firms with a view of establishing the challenges that the HIV/AIDS pandemic has presented to the private sector and the strategic responses the private sector has put in place to face these challenges. Descriptive studies are concerned with finding out what, when, where, who and how of a phenomenon (Schindler, 2003), which is the focus of this study

## 3.2 The Population

The population of interest was the HIV/AIDS Business Council member firms using the registered membership list as at 27/07/2005 (see appendix 2).

The HIV/AIDS Business Council will be used since it has actively campaigned against the pandemic and was formed as a result of a coalition of private sector firms who were ready to respond to the challenge posed by the HIV/AIDS pandemic. Since the HIV/AIDS Business Council member firms are 65 in number a census survey will be conducted.

## 3.3 Data Collection

Primary data was collected by use of a semi-structured questionnaire. The questionnaire was divided into two parts. Part A contained questions to determine the general information of the firms. Part B contained questions to capture the strategic responses that the firms had put in place to fight the pandemic. The questionnaires were administered to the CEO's and Managing directors of the various firms. E-mail and the drop and pick later method, which is a variant of the conventional mail survey were used in administering the questionnaires.

## 3.4 Data Analysis

Descriptive statistics was used for data analysis. Percentages, mean scores and content analysis were used to analyze the strategic responses by the firms to address the challenges presented by the HIV/AIDS scourge, which is the objective of the study.

# CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

## 4.0 Introduction

This chapter presents the data analysis and the findings of the study. The general demographic information is presented first followed by the analysis and findings on the strategic responses the organizations have developed in response to the HIV/AIDS pandemic.

## 4.1 General Information

The questionnaires were administered to 65 Kenya HIV/AIDS Business Council member firms. 34 organizations responded, which translates to 52.3% response rate. The respondents were 63.3%, Human resource managers 16% HIV/AIDS coordinators, 6% Administrators 5% peer educators 3.7% customer advisors, others included; production supervisor, managing director, medical officers and welfare benefit administrator.

This was satisfactory because the responses given showed an overall guidance of the top management of the organizations and therefore represented the strategic management views.

### 4.1.1 Organizational Size

Being a study of a pandemic disease that affects a large number of people, it was of value to assess the size of the organizations; this was determined by analyzing the number of employees and the firm's approximate annual turnover.

**a) Number of Employees**

The respondents were asked to state their organization's staff capacity. The questionnaire categorized the number of employees into three classes.

**Table 4.1: Number of employees**

| Class | Frequency | Percentage |
|---|---|---|
| 0-50 | 2 | 5.8 |
| 51-200 | 5 | 14.7 |
| 200 and above | 27 | 79.5 |
| Total | 34 | 100% |

As Table 4.1 shows, majority of the organizations interviewed had over 200 employees, which translated to 79.5 percent of the total number of organizations interviewed. This shows that most of the organizations interviewed were large organizations. Organizations that had less than 50 employees were classified as small organizations, which made up 5.8% of the interviewed organizations. Organizations with employees not more than 200 but with at least 50 employees were classified as medium sized organizations. In this study, only 14.7% of the organizations studied were medium sized.

**b) Approximate Turnover**

The organizations were asked to state their approximate annual turnover; this was also to be used in determining the size of the organization. However it was not possible to do so since most organizations did not disclose their approximate turnover. Also some responded by disclosing their turnover in weight units while others did so in monetary terms making it impossible to deliver comparative statistics.

### 4.1.2 Industrial Characteristics

This part deals with analyzing the characteristics of interviewed private sector firms. It covers the type of industry, ownership of the firms and the year of organization's establishment.

**a) Type of Industry**

The respondents were asked to disclose the type of industry in which their organizations fall in. This would capture the multi-industry response to the HIV/AIDS pandemic. The questionnaire suggested different types of industries. 21.2% of the organizations interviewed were in the banking industry. Food and beverages contributed 15.2%. The automobile and petroleum industries each had 11.4%. The others were from the textile, tobacco, packaging manufacturing extensions services and educational institutions.

Out of all the organizations interviewed, none were in the insurance, dairy, consultancy and Telecommunications industries.

**b) Ownership of Organization**

Ownership of the organization was classified as local, foreign and both local and foreign as shown in the Figure 4 below:

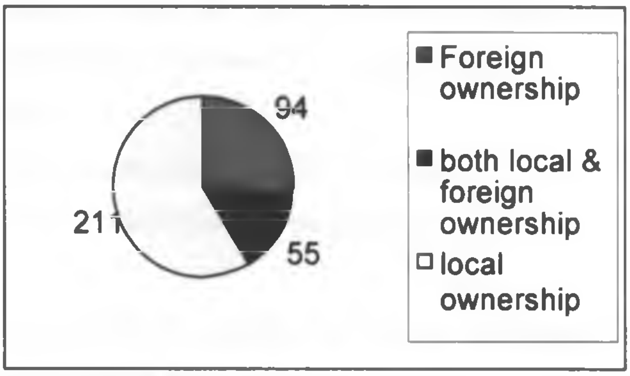


**Figure 4: Ownership of Organizations**

Local firms were found to be the majority with $211^0$ While foreign owned firms followed by $94^0$ whereas those with dual ownership were $55^0$ forming the minority of the interviewed firms.

## 4.2 Strategic Responses to the HIV/AIDS Pandemic

This study had one major objective which was to establish the strategic responses that the Kenya HIV/AIDS Business Council member firms have put in place to address the HIV/AIDS pandemic. The questions were asked in different forms multiple-choice questions, open ended questions and likert scale questions.

### 4.2.1 Workplace HIV / AIDS Programmes

It was necessary to find out whether organizations have a work place HIV/AIDS programme so as to assess the organizations' commitment to fighting the pandemic. The respondents were asked to state whether they have a workplace HIV/AIDS programme in place. The results are shown in Table 4.2.

**Table 4.2: Workplace HIV/AIDS Programme**

| Response | Frequency | Percentage |
|---|---|---|
| Yes | 28 | 85 |
| No | 5 | 15 |
| Total | 33 | 100% |

The findings in Table 4.2 above show that the most popular response by the firms was that they have a workplace HIV / AIDS programme in place. This is represented by 85% of the firms interviewed. However about 15% of the firms interviewed indicated that they do not have a workplace HIV/AIDS programme. The reasons they gave were;

a) Lack of awareness
b) The firm did not have many cases of HIV infection
c) Lack of staff to write a comprehensive programme.

The questionnaire also required the respondents to disclose the year in which these programmes were establish if at all they existed 70% of the firms interviewed indicated that their HIV/AIDS programme was established recently (2001 – to date). This shows an increase in awareness as compared to late 1990's when only few firms had this programme in place (30%) of the firms interviewed.

### 4.2.2 Factors that Influenced the Establishment of the Workplace HIV / AIDS Programme

There were many factors that were identified in the study as having influenced the establishment of HIV/AIDS programmes. The respondents were asked to state the extent to which the factors influenced the establishment of workplace programme. The results are shown in Table 4.3 below:

**Table 4.3: Factors Influencing Establishment of HIV/ AIDS Programmes**

| Factor | Mean score | Standard Deviation |
|---|---|---|
| Mother company's request | 3.16 | 1.9 |
| Own initiative | 3.8 | 1.4 |
| High prevalence rate of HIV /infection | 2.96 | 1.14 |
| Corporate social responsibility | 3.28 | 1.13 |
| Outside pressure (Government, clients) | 3.04 | 1.59 |

Table 4.3 shows that the firm's own initiative had the greatest influence (with a mean score of 3.8) in the starting of the HIV/AIDS workplace program while the high prevalence rate of HIV infection in the firms had the least influence with a mean score of 2.96. However the other factors still had some amount of influence on the formation of the HIV/AIDS workplace programmes as can be seen from the mean scores of around 3.

#### 4.2.2.1 Activities Included in the Workplace HIV/AIDS Programme

Most organizations had a workplace HIV/AIDS programme it was therefore essential to determine what activities the programmes were involved in. The questionnaire suggested 7 activities. Respondents were required to indicate the activities carried out by the programme. The results are shown in the following Table 4.4.

**Table 4.4: Workplace Programme Activities**

| Activity | Frequency | Percentage % | Cumulative percentage |
|---|---|---|---|
| a) Voluntary counseling & testing | 21 | 14.4 | 14.4 |
| b) Peer education | 17 | 11.6 | 26.0 |
| c) Behaviour change communication | 23 | 15.8 | 41.8 |
| d) Condom dispensing | 24 | 1.4 | 58.2 |
| e) Awareness campaign | 25 | 17.1 | 75.3 |
| f) Care and support for the infected | 21 | 14.4 | 89.7 |
| g) Community outreach program | 15 | 10.3 | 100 |

There was normal distribution of the activities carried out since the range was from 10% to 17%. The study established that the workplace HIV/AIDS programme encompassed all the listed activities. Other activities carried out by the workplace HIV/AIDS programmes, not listed in the questionnaire, include.

a) HIV in-house newsletter

b) Home based care

c) Organizing for a family day to increase awareness of HIV/AIDS in the organization.

### 4.2.3 HIV/AIDS Policy

In order to determine whether the HIV/AIDS pandemic is treated as a business issue by the Kenya HIV Business Council member firms, it was important to establish whether the firms had a policy on HIV/AIDS as a strategic response to fight the pandemic. It was also key to find out the personnel involved in the formulation process, the year of formulation and guidelines if any, which were referred to during the policy formulation process.

The respondents were asked to indicate whether they have the HIV/AIDS policy in place. The results are shown in Table 4.5.

**Table 4.5: HIV/AIDS Policy**

| Response | Frequency | Percent |
|---|---|---|
| Yes | 22 | 64.7% |
| No | 12 | 35.3% |
| Total | 34 | |

Table 4.5 above shows that majority of the firms indicated that they have the policy in force (64.7%). 35.3% of the private firms interviewed indicated that they did not have the policy in place.

This shows that most Kenya HIV/AIDS Business Council member firms have a HIV/AIDS policy in force. However, those firms that do not have a HIV/AIDS policy in force indicated that it was due to the following reasons;

a) Lack of awareness

b) The policy was yet to be approved by the board of management

c) Lack of personnel to come up with the policy.

d) The effect of HIV/AIDS was not high in the organization hence lack of commitment.

Some indicated that the HIV/AIDS policy is in the process of formulation.

#### 4.2.3.1 Personnel Involved In Policy Formulation

Determining the personnel involved in the process of policy formulation would help to know whether the firms realized that HIV/AIDS is a business issue and also indicates the extent of commitment that the form has to fight the scourge.

The respondents were asked to indicate the personnel involved in the formulation of the HIV/AIDS policy. The results are shown in Table 4.6.

**Table 4.6: Personnel Involved In Policy Formulation**

| Response | Frequency | Percent |
|---|---|---|
| a) Top management | 28 | 82.3 |
| b) Consultants | 9 | 26.5 |
| c) Representative of employees at all levels | 13 | 38.3 |
| d) Others | 2 | 5.8 |

According to Table 4.6 out of the interviewed, 82.3% of the firms involved the top management in the process of policy formulation. 38.3% of the firms had representatives of employees at all levels, while 26.5% of the firms involved consultants.

This shows that in the majority of the firms, top management was involved in formulation of the HIV/AIDS policy. This shows commitment of top management in dealing with the scourge.

#### 4.2.3.2 Year of Policy Formulation

It was necessary to determine when the HIV/AIDS policy was formulated, as this would determine the trend of awareness of the disease and intervention strategies. The respondents were asked to indicate the year when the HIV/AIDS policy was formulated. The results are shown in Figure 5 below.

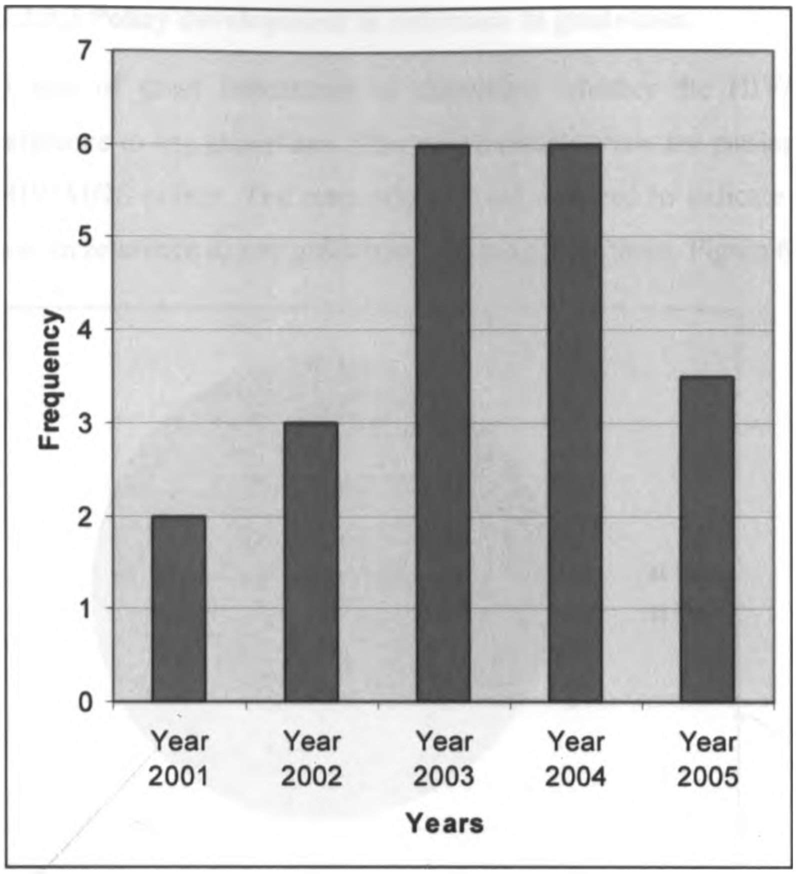


**Figure 5:Year of HIV/AIDS Policy Formulation**

According to Figure 5 out of the 22 firms which responded that they have the HIV/AIDS policy, the majority (55%) indicated that they formulated this policy between the years 2003-2004. Those which formulated the HIV/AIDS policy in the year 2005 are on an increasing trend although the year has not yet ended. It is likely that those who formulated the HIV/AIDS policy in the year 2005 will be more than the others.

This clearly shows that firms in the private sector identify HIV/AIDS as a business issue and are willing to fight the pandemic and therefore trend of formulating HIV/AIDS policies is on the increase.

#### 4.2.3.3 Policy development in reference to guidelines

It was of great importance to determine whether the HIV/AIDS policy was developed in reference to any guidelines. This would clearly show the parties that influence the formulation of HIV/AIDS policy. The respondents were required to indicate whether the policy development was in reference to any guidelines and to specify them. Figure 6 below shows the results.

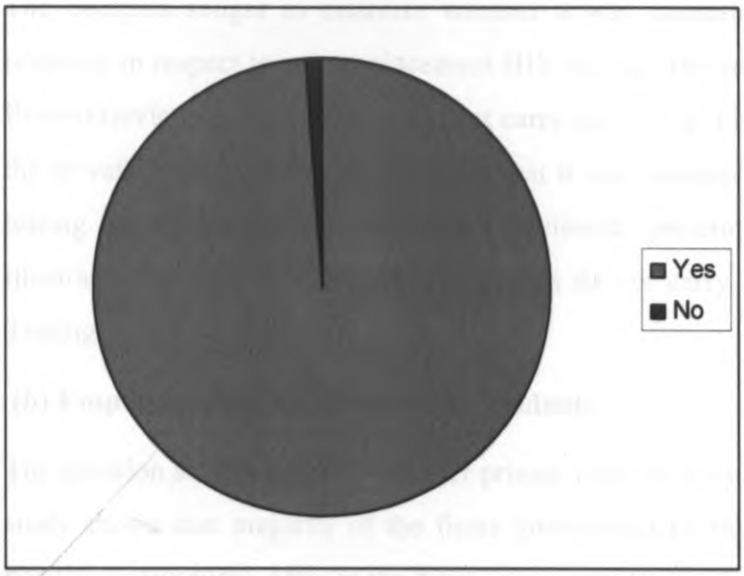


**Figure 6: Policy Development in Reference to Guidelines**

According to Figure 6 above those who developed the HIV/AIDS policy in reference to guidelines were the majority ($356.4^0$) while those who developed the policy not referring to any guidelines formed the minority with $3.6^0$.

The study went further to determine which guidelines were used to develop the HIV/AIDS policy. This was to show the parties that influence the process of policy formation in regard to HIV/AIDS. The respondents who had a HIV/AIDS policy were required to disclose the guidelines used in policy development. 78% of the firm that developed their HIV/AIDS policy in reference to guidelines showed their source as the Federation of Kenya Employers guidelines. Only 22% of the firm interviewed had utilized the International Labor Organization's guidelines. This shows that majority of the firms develop their HIV/AIDS policy in reference to guidelines and the major source of these guidelines is from the Federation of Kenya employers.

#### 4.2.3.4 Policy Issues

In addition, to establishing HIV/AIDS policy, it was of great importance to determine the issues addressed by the policy. Different issues were indicated in the questionnaire for the respondents to disclose what their firms do when faced by the particular circumstances.

**(a) Mandatory pre-employment HIV testing**

The question sought to establish whether it was mandatory to test, not to test or any other response in respect to pre-emplacement HIV testing. The study established that out of the private firms interviewed, 81% of them did not carry out HIV test before employment. However, 15% of the private firms interviewed indicated that it was mandatory to carry out pre-employment HIV testing. In 4% of the private firms interviewed, pre-employment HIV test is optional. This illustrates that majority of the private firms do not carry out mandatory pre-employment HIV Testing.

**(b) Employment of HIV Positive Individuals**

The question sought to know whether private firms employ known HIV positive individuals. The study shows that majority of the firms interviewed (82%) indicated that they do employ HIV positive individuals. 18% of the firms interviewed indicated that they do not have such a policy since they do not carry out mandatory pre-employment HIV testing.

None of the organization interviewed discriminate potential employees due to their HIV status.

**(c) Treatment of HIV positive individuals with antiretroviral agents**

The questions sought to know whether the firms have a policy of treating HIV positive individuals with ARV. The study shows that out of the interviewed firms, majority (88%) treats HIV positive individuals with ARVs. However, 12% of the private firms do not.

**(d) Periodic HIV testing of employees**

The questions sought to determine whether the private sector firms carry out periodic HIV testing of employees. The study revealed that majority (78%) of the firms does not do so. However 18% of the firms interviewed on this policy do carry out periodic HIV testing of employees for insurance purposes. The other 4% indicated that it was optional for the employee to do the test.

**(e) Treatment, care and support for the dependant.**

The respondents were required to disclose whether they cater for the dependants or not. The study revealed that majority (72%) of the firms interviewed do offer care, support and treatment to the dependant. However, 16% of these firms do not cater. The other firms (4%) indicated that this policy is being worked on.

### 4.2.3.5 Treatment of HIV People within the Organization

The study sought to know whether the HIV positive employees are discriminated on or not. The study revealed that majority of the firms interviewed (97%) treat the HIV positive employees within the organization in the same way as those not infected. However, 3% of the private firm indicated that there is discrimination against the HIV positive employees. However, none of these disclosed the reasons.

### 4.2.3.6 Communication of HIV AIDS Policy to all Employees

It was of great importance to determine whether the HIV/AIDS policy had been communicated to all employees. The respondents were asked to indicate whether the policy was communicated to all employees.

Figure 7 below shows the results.

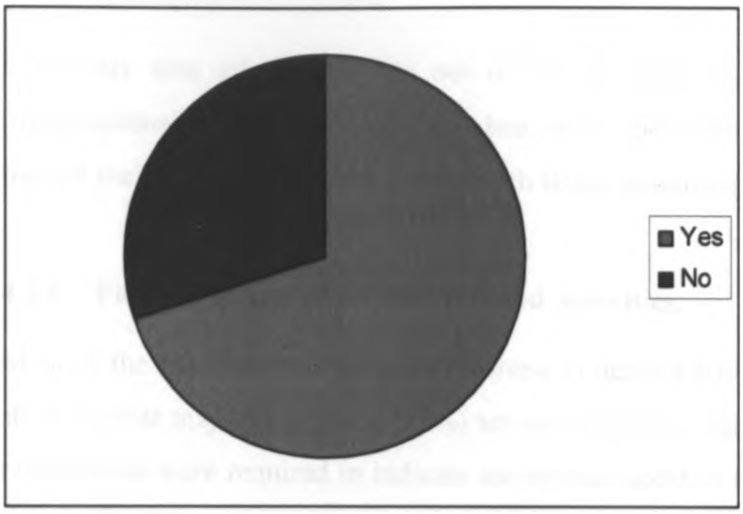


**Figure 7: Communication of the HIV/AIDS Policy**

The study shows that the majority of the firms ($252^0$) have communicated the HIV/AIDS policy to all employees.

### 4.2.4 Organizational Structure

One way of combating the HIV/AIDS pandemic is through the establishment of a human resource structure that caters for HIV/AIDS issues in the workplace. Establishment of this structure will indicate changes that have been put in place to respond to HIV/AIDS. The study sought to establish whether there has been establishment of such a human resource structure in response to the HIV/AIDS pandemic. The study showed that majority of the private firms interviewed (76%) have established an organizational structure in this respect but 24% had not set up a structure to deal with the scourge.

Those that had put changes to the organizational structure in respect to HIV/AIDS had initiated the following changes:

- Introduction of medical personnel
- Established a committee to deal with the issue
- Trained peer educators

- HIV/AIDS Coordinator

The study also established that out of all the firms that had put in place changes to the organizational structure to accommodate issues pertaining to HIV/AIDS, 93% of them had trained their personnel on how to deal with issues pertaining to HIV/AIDS at the workplace.

### 4.2.5 Funding of the HIV/AIDS Related Activities.

Most of the firms demonstrated seriousness in dealing with the matter. This was established by showing that majority of them (79%) set aside funds to deal with the HIV/AIDS pandemic. The respondents were required to indicate the amount spent in fighting the HIV/AIDS scourge in the year 2004. The results are shown in the Table 4.7 below

**Table 4.7: Funding for HIV/AIDS related activities**

| Class Kshs Million | Frequency | Percentage |
|---|---|---|
| Less than 1M | 8 | 36 |
| 1M – 10M | 9 | 40 |
| Over 10M | 5 | 24 |

As Table 4.7 above shows, 24% of the firms spent over 10 million in HIV related activities in the year 2004 while 36% of the firms spent less than 1 million in fighting the scourge during the same year.

### 4.2.6 Extent to which the Responses meet the Firm's Objectives

HIV/AIDS is a disease that requires a multidimensional approach in tackling it. Organizations have developed different strategies to address the challenges posed by the HIV/AIDS pandemic. These strategies are:

a) Peer education

b) Behaviour change communication

c) HIV/AIDS policy

d) Provision of health care to the infected

e) Community outreach programs

f) Condom distribution

g) Voluntary counseling and testing

The question sought to know to what extent each of the above strategy has addressed the challenges posed by the HIV/AIDS pandemic. Respondents were asked to rate the above strategies using a five-point scale ranging from a very great extent to not all based on whether the responses met the respondents' objectives. Table 4.8 below shows the results of the study.

**Table 4.8: Extent to which the Responses Meet the Firm's Objectives**

| **Strategy** | **Mean score** | **Standard Deviation** |
|---|---|---|
| a) Peer education programme | 1.73 | 2.0 |
| b) Behaviour change communication | 2.67 | 1.12 |
| c) HIV/AIDS policy | 3.16 | 1.3 |
| d) Provision of health care to the infected | 3.03 | 1.32 |
| e) Community outreach program | 2.73 | 1.34 |
| f) Condom distribution | 3.5 | 1.2 |
| g) Voluntary counseling and test (VCT) | 3.73 | 1.3 |

Table 4.8 above shows that Voluntary counseling and testing had the best effect in meeting the firm's objectives in the fight against HIV/AIDS as it had a mean score of 3.73 while the peer education programme had a mean score of 1.73 implying that it has the least effect in meeting the firms' objectives in fighting the scourge. This could be due to the fact that it is a new concept, which the firms are trying out, and the effects are yet to be fully demonstrated.

### 4.2.7 Constraints Faced by the Organizations in Dealing with the Pandemic

It was necessary to assess the level of difficulties faced by the firms in dealing with the HIV/AIDS pandemic. The respondents were asked to state these difficulties. The question had identified four main constraints namely; time, finances, workers commitment and stigma. Majority of the organizations (40%) face financial problems. Those with lack of workers' commitment were 29% out of those interviewed. 27% of the organizations interviewed claim that they lack adequate time and 32% of the organizations interviewed indicated stigma as a problem.

Other constraints mentioned were as follows;

a) Employees fear disclosing their status

b) Lack of technical capacity

c) Lack of top management commitment.

# CHAPTER FIVE: CONCLUSIONS

## 5.0 Introduction

In this chapter a summary of results is presented, discussed and conclusions drawn. Limitations of this study, recommendations for further research, policy and practice are also provided.

## 5.1 Summary, Discussions and Conclusions

In this section the results are summarized, discussed and conclusions drawn. The sole objective of the study was to establish the strategic responses that the Kenya HIV/AIDS Business Council member firms have put in place to address the HIV/AIDS pandemic. The Kenya HIV/AIDS Business Council member firms are composed mainly of private sector firms and the study identified the strategies that these firms have developed to fight the HIV/AIDS pandemic in the workplace.

The study recalled that the HIV / AIDS pandemic posed many business challenges to private firms. The challenges pose a risk in terms of the financial and the human resources of the organizations. HIV and AIDS is a chronic illness that requires frequent follow up not only to the infected but also to the affected e.g. the dependants of the HIV infected individuals. The employees are principal resources of the organizations. It was therefore important to study the workplace programmes, policies and commitment that the organizations have put in place to combat the scourge.

Majority of the firms (79%) set aside funds to deal with the HIV/AIDS pandemic with 40% of the firms spending in between Ksh1million to 10million in the year 2004. This means that the firms identified HIV/AIDS as a business issue and they decided to tackle these challenge by availing funds from their budget to deal with HIV related activities. The study revealed that 93% of the organizations interviewed had put trained personnel in charge of issues pertaining to the HIV / AIDS pandemic.

64.7% of the firms had a HIV/AIDS policy in place this shows that the firms want to clearly stipulate their responses to the HIV pandemic. Furthermore, most organizations would like to know their employees HIV/AIDS status for purposes of providing them with care, support and treatment and not for discriminatory practices as 97% of the firms interviewed do not discriminate based on ones HIV status but instead 72% of the firms provide treatment to the HIV infected employees with antiretroviral drugs.

The most popular response by the organizations to the HIV / AIDS pandemic was to have a workplace HIV / AIDS programme (85%). This was seen as a strategic approach. In order to be effective these programmes are implemented through formulating appropriate HIV/AIDS policies (64.7%), establishing a human resource structure, which accommodates issues pertaining to HIV/AIDS and formulating strategies to address the challenges posed by the HIV/AIDS pandemic. This really helped in fighting stigma and discrimination of the HIV positive employees in the organizations.

## 5.2 Limitations of the Study

The study was limited to the Kenya HIV/AIDS Business Council Member firms inclusion of other firms in the private sector and from other sectors for instance the public sector, may have enriched the study and its findings but it was not possible to include them as this would have resulted in a different group of study units. It was also not possible to include many small business enterprises as the Kenya HIV Business Council deals mainly with large firms in the private sector, this however would have enriched the study and would have enabled comparisons between large, medium and small enterprises.

## 5.3 Recommendations for Further Research

The study could cover other private sector firms that are also hard hit by the pandemic. This can then be compared to the Kenya HIV/AIDS Business Council member firms to see how different or similar the responses are.

The responses adopted by the firms to tackle the challenges posed by HIV/AIDS on their businesses are good but have not been observed for a long time to determine their success. Therefore more research can be done with time to measure the success of the responses adopted today by the firms in fighting the pandemic.

The pandemic affects all sectors of the economy. The research focused on the private sector firms only and did not look into other sectors. The scourge requires a multifaceted approach to bring it under control further research can be conducted on other sectors to find out how the pandemic has affected their day to day business and how they have responded to it as well as measure the success of these responses.

## 5.4 Recommendations for Policy and Practices

The study concluded that the Kenya HIV/AIDS member firms have identified HIV as a business issue and have come up with programmes and policies to deal with the HIV/AIDS pandemic in the workplace. However the organizations need to continue with the fight against the scourge so as to combat further spread of the disease. The researcher therefore recommends that the organizations need to keep re-launching the workplace HIV/AIDS programmes so as to avoid burn out amongst the employees and maintain their worker's commitment in fighting the scourge. The policies put in place need to be updated with time, for example, with the availability of ARVs at access prices the companies can afford to offer treatment to the infected and pre-employment and periodic testing of employees should be encouraged but with an aim of offering treatment to those infected  with the Human Immunodeficiency Virus and not as a basis for discrimination.. This would ensure that the organizations have a healthy workforce and high productivity is maintained which ensures for continued prosperity and success of the firms.

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## APPENDIX ONE: QUESTIONNAIRE

**Part A : General information**

1. Name of the Organization (Optional)

2. Position of the contact person

3. Number of employees

- 0 – 50
- 51 - 200
- 201 and over

4. Type of Industry

| | |
|---|---|
| Insurance | Banking |
| Pharmaceutical | Oil/ Petroleum |
| Automobile | Consultancy |
| Tobacco | Soft drinks & Carbonated water |
| Textile | Telecommunications |
| Dairy | Baking |

Others (please specify)

5. Who owns the organization?

- Local
- Foreign
- Both Local and foreign

6. When was the organization established in Kenya?

7. What is the firm's approximate annual turnover?

**PART B: Strategic Responses to Address the HIV Pandemic**

8. Does your organization have a workplace HIV/AIDS programme? Yes No

9. If your answer to question 8 above is no, please explain why the program is not in place

10. If the answer to 8 above is yes, when was the programme started?

11. To what extent did the following factors influence the starting of the workplace programme? Use a five point rating scale to indicate the extent, where;

1= not at all 5 = Very great extent

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| a) Mother company's request | | | | | |
| b) Own initiative | | | | | |
| c) High prevalence rate of HIV infection | | | | | |
| d) Corporate social responsibility | | | | | |
| e) Outside pressure (Government, Clients) | | | | | |

12. What activities is the HIV/AIDS workplace programme involved in

a) Voluntary Counseling and testing
b) Peer education
c) Behaviour change communication

d) Condom dispensing

e) Awareness campaigns

f) Care and support for the infected

g) Community outreach programs

h) Others (please specify)

13. Does your organization have a policy on HIV/AIDS? Yes No

14. If your answer to question 13 above is no, please explain why

15. Who was involved in the policy formulation process? (Please tick where appropriate)

a. Top management

b. Consultants

c. Representatives of employees at all levels

d. Others (please specify)

16. When was the policy formulated?

17. Was the policy developed in reference to any guidelines? Yes No

18. If the answer to question 15 above is yes which guidelines were used?

a. International labour Organization's guidelines

b. Federation of Kenya Employers' guidelines

c. Others (please specify)

19. What is your organization's policy on the following issues?

a) Mandatory pre-employment HIV testing?

To test

Not to test

Others (please specify)

b) Employment of HIV positive individuals

To employ

Not to employ

Others (please specify)

c) Treatment of HIV positive individuals with antiretroviral agents?

To treat

Not to treat

Others (please specify)

d) Periodic HIV testing of employees?

To test

Not to test

Others (please specify)

e) Treatment, care and support for the dependants?

To cater

Not to cater

Others (please specify)

20. In your Organization, are the HIV infected people entitled to the same benefits, rights and opportunities to people with other life threatening illnesses? Yes No
21. If the answer to question 20 above is no please explain why
22. Has the HIV/AIDS policy been communicated to all employees? Yes No
23. Have you established a human resource structure in response to the HIV/AIDS pandemic? Yes No
24. If the answer to question 23 above is yes please explain what kind of changes have been put in place
25. If the answer to question 23 above is yes, are the people in-charge of issues pertaining to HIV/AIDS in the organization trained on HIV/AIDS? Yes No
26. Has the firm set aside resources to deal with the HIV/AIDS pandemic? Yes No

27. How much did the firm spend on fighting the HIV/AIDS scourge in the year 2004?

28. In your opinion to what extents have the strategies your organization has put in place to address the challenges posed by the HIV/AIDS pandemic met your objectives.

Use a five point rating scale as before where:-

1= not at all

5= Very great extent

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| a) Peer education programme | | | | | |
| b) Behaviour change communication | | | | | |
| c) HIV/AIDS policy | | | | | |
| d) Provision of healthcare to the infected | | | | | |
| e) Community outreach program | | | | | |
| f) Condom distribution | | | | | |
| g) Voluntary counseling and testing | | | | | |

29. What constraints is your organization facing in dealing with the pandemic?

a. Time
b. Finances
c. Worker's commitment
d. Stigma

30. What other constraints is the organization facing in fighting the pandemic?

**THANK YOU**

## APPENDIX TWO: HIV/AIDS BUSINESS COUNCIL MEMBERS

**Registered member firms of the Kenya HIV/AIDS Business Council as at 27 July 2005**

1. AON Minet
2. Associated Battery Manufacturers
3. Alliance Group of Hotels
4. Barclays Bank of Kenya
5. Bayer East Africa Ltd
6. Bidco Oil Refineries
7. Brooke Bond Kenya
8. Cadbury Kenya
9. Capital FM
10. Caltex
11. Commercial Bank of Africa
12. Coca cola Kisii Bottlers
13. Cooperative Bank of Kenya
14. Cooperative Insuarance Company
15. DT Dobie & Co
16. Eveready Batteries
17. East African Portland Ltd.
18. Housing finance company limited
19. Gailey & Roberts
20. GlaxoSmithKline
21. Haco Industries
22. Integri Healthcare
23. Intercontinental Hotel
24. Celtel Communication
25. East African Breweries
26. Kenya Commercial Bank
27. KPMG
28. KTN
29. Magadi Soda

30. Mobil Kenya
31. Mount Kenya Bottlers
32. Nairobi Bottlers
33. Nation Media Group
34. Nestle Foods Kenya
35. Old Mutual Life Assurance
36. Ramageco Kenya Ltd.
37. Ernst & Young
38. General Motors
39. PriceWaterHouse Coopers
40. Reckitt Benkiser
41. Rift Valley Bottlers
42. Sara Lee Household & Body Care
43. Serena Hotels
44. Standard Chartered Bank
45. Total Kenya
46. Tetra Pak
47. SDV Transami
48. Safaricom Ltd
49. Securicor Service Kenya Ltd
50. Uchumi Supermarkets
51. Unga Holdings
52. Unilever Kenya
53. Unilever Tea Kenya Ltd.
54. Coca-Cola Africa
55. BAT(British American Tobacco)
56. Nairobi bottlers
57. Kameme FM.
58. Institute of Personnel Management
59. NIC Bank
60. Del Monte

61. Bata Shoe Company
62. Mantrack
63. Symphony
64. Colgate Palmolive E.A. Ltd
65. De La Rue Company and Security Print

## APPENDIX THREE: LETTER OF INTRODUCTION

July, 2005

Dear Respondent

**MBA RESEARCH PROJECT**

I am an MBA student at the University of Nairobi. I am conducting a management research on the strategic responses of Kenya HIV/AIDS Business Council member firms to the HIV/AIDS pandemic. This letter is to request you to assist in filling the questionnaire, the information given is basically for academic research and not in any way meant to assess any given institution.

The information you will give and the conclusions made will be treated with strict confidence and will not under any circumstances be divulged, even where a name has been indicated it will not under any circumstances appear in the final report.

Your co-operation will be highly appreciated.

Yours truly

Helen Magutu                                        Dr Martin Ogutu

Student                                                  Supervisor

# STRUCTURE AND GROWTH OF SUPERMARKETS IN NAIROBI

This thesis is my original work for partial fulfillment of the requirements for the Degree of Master of Business Administration Degree, MBA Newport University, California, U.S.A.

This Research Paper has not been presented for a Degree in any other University.

**FREDRICK WAFUBWA NDUGULI**

This thesis has been submitted for examination with the approval of the University Supervisors

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## Acknowledgment

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I would like to thank Bernadine Erulu, Laura, Yournina Orido and Nancy Mosa for having turned my manuscript into its finished form.

*Frederick W. Ndaguli*

January 1997

*To my parents,*

*Ambrose Wafubwa*
*Wilbroda Nafula*

## Contents

# Abstract

Retailing is one of the most important sector(s) of this country[1]. Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use. It is an important tax collection point today because Value Added Tax is collected at retail level in this country as well as contributing to the welfare of the consumers by offering goods at reasonable prices.

Professor McNair of Harvard championed the wheel of retailing theory which postulates that an efficient innovatory form of retailing is always entering the market and therefore attracts the public by its new appeal.


[1] NAPOLEON BONAPARTE: About a Nation of Shopkeepers

# Chapter 1

## Scope of Supermarkets

This study investigates the structure and growth of supermarkets in Nairobi. The Structure and growth of supermarkets in Nairobi is an important aspect of the socio-economic development as it is positively correlated with the welfare of the residents, the success of the retail sector and the related field of employment. "Unemployment in urban areas is currently around 25 pet cent (25%)"[2] and Nairobi has the highest number.

There has been relatively little development in this particular kind of literature in Kenya. In part this is because there have been scanty entrenched linkages between academics and the supermarket concerns and the opportunities for consultancy work have been consequently more limited.

In Kenya a supermarket is defined as a large scale retailing institution with several departments under one roof and operating on a self-service basis, e.g., cosmetics, pharmaceutical, crockery, foodstuffs, etc. Most supermarkets in Kenya have a two stage channel distribution of:-

MANUFACTURER ⟶ INDEPENDENT RETAILER ⟶ CONSUMER

**Figure 1**

MANUFACTURER ⟶ INDEPENDENT RETAILER ⟶ CONSUMER

Marketing in a general business sense is concerned with the identification of the demand for various goods and services and with the arrangement of supply of these through an efficient distribution Network. (Davis L. Ron).

In this case, the core focus of attention is the retail service activities where the component parts of strategy, marketing and planning are concentrated in specific places. The overall supermarket pattern is a result of speculative private enterprise.

[2] Policy framework paper by the Government with IMF and the World Bank: February 16, 1996; Page 5

**Figure 1**: Guirdham M. Marketing: The Management of Distribuion Chaneels, Pergamon, 1972

My emphasis is on spatial marketing characteristics of retailing activities; the hidden key to this now vigorous economic development, the strategic marketing of places and the limited resource in improving basic services for citizens.

The most common activities of supermarkets are the intermediary operations of poor marketing plans due to inadequate preparation and choice of the wrong markets for entry. They exhibit insufficient attention to modify and meet cultural preferences or prices to meeting competition and the product acceptance price. All supermarkets with an exception of Uchumi supermarkets are owned by individuals; Over 80 percent are owned by Asians and are increasingly developing their own system of retailing by making an insufficient investment in marketing activities and thereby failing to establish a forehold or market position and focussing professional practices and expansion, but instead ordering growth.

The task of supermarkets in Nairobi enshrines **inter alia**:-

1. **Merchandising:**

   Involves the entire group of decisions and tasks involved in determining what merchandise is offered, acquiring it, and having it available in the right assortments at the right places to maximize the stores marketing objectives. In many retail operations, merchandising includes the functions of buying, receiving, marketing and handling all merchandise as well as controlling inventory levels and mixes in the stores.

2. **Promotion:**

   Generally includes advertising, publicity displaying of merchandise, any tactics (other than merchandise selection and pricing) which will induce profitable sales volume. Special attraction techniques like store signs, catalogues, premiums, trading stamps and non-recurring interest breaks are considered promotions. Store layout designs, traffic below planning, rack displays, wall and flow coloring, lighting presentations and so on are important aspects of in-store promotions of all other line activities.

The consumer behaviour is also much more concerned with the demand for various goods and services as it is with their supply. I am primarily concerned with characteristics of domestic shopping trips rather than with the full spectrum of business. This consumer behaviour will be crudely distinguished in terms of convenience shopping comparison shopping and specialty shopping. The concept of strength is carefully interpreted and attributes of importance to each target group and the weights to these attributes considered. The supermarkets plan to get closer to the consumer is brought into focus, and the trend of consumers who understand the direct and indirect influences affecting them now and in the future.

The growth of supermarkets will help discover the real need and wants of potential customers, how their needs are being met now and in the future. It is common sense to recognize variations between customers. They differ by age, sex, ethnic origin, income levels, educational standards, type of work they do, type of leisure activities, type of homes in which they live and many other variants. At this stage, cognisance of the commercial service which indicates the different purchasing potential of differing residential areas is highlighted.

The future of supermarkets lies in locations where the masses reside as these will provide not the purchasing power of individuals, but rather, the increase in total population enhances the household purchases and thus the sales increase drastically for the stores. Obviously the demand for locally manufactured products in Eastlands is 75%. This demand will be reflected in increased manufacturing activity which will finally foster the local industry to compete internationally and thus succeed in import substitution - in addition to generating productive employment opportunities to absorb the rapidly growing labour force.

The structure and growth of supermarkets must also be viewed in terms of the laissez-faire society with Government intervention being pervasive; hitherto 1994, price controls applied to a very large number of consumer goods and were either set at market clearing levels or were not strictly enforced. "There was no ideological commitment to price control. The Minister of Finance once openly described the policy as window dressing; you have to be seen to be struggling with inflation otherwise politically you are not credible"[3].

The entrepreneurs in supermarkets (Asians) acquire their goods and supplies at unofficial prices at all stages from the factory, wholesaler and retailer by avoiding (Sales Tax) V.A.T. (Value Added Tax) therefore cost prices are low and profit margins very high making the owners of supermarkets able to reap abnormal profits. Imported items are also dominated by Asians who avoid duty and V.A.T. or only pay a fraction and direct the goods from the unloading of imports to retail distribution. This large scale racketeering including buying up the production of their firms at unofficial prices explains why Asians have monopolized the retail sector in its structure and growth and equally the existence of very poor growth of supermarkets among the masses in Eastlands and the peripheral areas of the City (suburban) and also the driving force for more outlets in the city and mid-class areas.

The liberalization policy has the business community of importing products thus conferring benefits on favoured urban traders who are politically powerful and are now opening small outlets because of the availability of goods.

---

[3] Economic Managment for Renewed Growth; P.1

The population of Kenya still growing at a high rate of around 3% "The urban population will reach 9 to 10 Million by 2000"[4]. Over one fourth of the total population. This growth must have the provision of Basic Human Needs largely by Retail markets.

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**Kibera N. Francis & Waruingi B. Chege**: Fundamentals Of Marketing; An African Perspective P-117

**Davis L. Ross**: Marketing Geography: The Main Channels Of Distribution; P.55-57


[4] Economic Reforms for 1996-98; Policy framework paper by the Government of Kenya in collaboration with IMF and World Bank; February 16, 1996: P.32.

# Chapter 2

## The Framework of Supermarkets

A store locational analysis has the focus of supermarkets considered from the standpoint of their consumer catchment areas and the business centres within which they are located.

**Self-Service outlets operated in Nairobi as at december, 1995**

| | Name | Location |
|---|---|---|
| 1. | AFCO | Embakasi |
| 2. | AFCO | Eastleigh |
| 3. | AFCO | Kahawa |
| 4. | AFCO | Langata |
| 5. | AFCO | D.O.D Ulinzi |
| 6. | African Grocers Ltd. | Hurlingham |
| 7. | Anapurna Grocers & Millers | Westlands |
| 8. | Avenue Park Shopping Mart | Avenue Park Estate |
| 9. | Bargain Place | City Centre |
| 10. | Buckley Stores | Industrial Area |
| 11. | Chandarana Yaya | Yaya Centre |
| 12. | Chandarana Supermarkets | Highridge |
| 13. | Chequered Flag Esso Shop | Westlands |
| 14. | City Mattresses | Industrial Area |
| 15. | Kleenway Supermarket | Kilimani |
| 16. | Continental Supermarket | Westlands |
| 17. | Crosby Supermarket | Westlands |
| 18. | Devkresh Supermarket | Ruiru |
| 19. | Eastleigh Mattresses | Eastleigh |
| 20. | Fair Price Mini Supermarket | Kangemi |
| 21. | Fair Rose Supermarket | City Centre |
| 22. | Fair Lane Supermarket | Buru Buru |
| 23. | Fair Lane Supermarket | Kenyatta Market |
| 24. | Feine Faye Supermarket | City Centre |

| | | |
|---|---|---|
| 25. | Fontana Gift Shop | City Centre |
| 26. | Frankaal Ltd. Umoja/Supermarket | Umoja |
| 27. | Mogomart Supermarket | South C |
| 28. | Georges Supermarket | South C |
| 29. | Gigiri Supermarket Ltd | Gigiri |
| 30. | Harry's Supermarket | Hurlingham |
| 31. | Hasolick Supermarket | Eastleigh |
| 32. | Hot And Spicy Limited | Westlands |
| 33. | Hot Point Appliances | Westlands |
| 34. | Hypermart Limited | City Centre |
| 35. | Jay Emporium Limited | Westlands |
| 36. | Jamia Supermarket | City Centre |
| 37. | Joska | Kawangware |
| 38. | Acacia Supermarket | Kawangware |
| 39. | Jack & Jill Supermarket | City Centre |
| 40. | Jowinka Supermarket | Zimmerman |
| 41. | Marsani Supermarket | South B |
| 42. | Kenton Supermarket | Kawangware |
| 43. | Kinkul Supermarket | Umoja |
| 44. | Ladywood Farm Shop | Westlands |
| 45. | Langata Grocers | Langata |
| 46. | Leadways Supermarket | Githurai |
| 47. | Marja Supermarket (Tesco) | Eastleigh |
| 48. | Maru Enterprises | City Centre |
| 49. | Maxwell Traders | City Centre |
| 50. | Magtraco Limited | City Centre |
| 51. | Mesora Supermarkets | Buru Buru |
| 52. | Moraa Supermarket | Pangani |
| 53. | Mumsies Supermarket | City Centre |
| 54. | Muruta Industries | Kilimani |
| 55. | Muthaiga Mini Market | Muthaiga |
| 56. | Makro Supermarket | City Centre |
| 57. | Nakumatt (Holdings Ltd) Mega | Industrial Area |
| 58. | Nakumatt Downtown | City Centre |
| 59. | Nakumatt Checkpoint | City Centre |

| | | |
|---|---|---|
| 60. | Nakumatt Ukay Centre | Parklands |
| 61. | Nakumatt Athusi | City Centre |
| 62. | Nafrom Self Service Store | Ongata Rongai |
| 63. | New Westlands Stores Ltd | Westlands |
| 64. | Pamoke General Store | South C |
| 65. | Peponi Grocers Limited | S/Valley |
| 66. | Peter Johnson Supermarket | Pangani |
| 67. | Pick "N" Pay Supermarket | Parklands |
| 68. | Pay Less Supermarket | City Centre |
| 69. | Portway Stores | Industrial Area |
| 70. | Ronny's Supermarket | City Centre |
| 71. | Rossam Supermarket | South B |
| 72. | Safeways Hypermarket Ltd | Buru Buru |
| 73. | Sainsbury S. Service Store | Lavington |
| 74. | Savemore Supermarket | South C |
| 75. | Seven Eleven Supermarket | South C |
| 76. | Select "N" Pay Supermarket | South B |
| 77. | Shanti Grocers | South B |
| 78. | Sheela Supermarket | Highridge |
| 79. | Shoppers Delight Supermarket | Eastleigh |
| 80. | Spicey Spices Limited | Westlands |
| 81. | Spring Valley Supermarket | S/Valley |
| 82. | Star Supermarket | Greenfields |
| 83. | Steklar Supermarket | Umoja |
| 84. | Supervalue Supermarket | Hurlingham |
| 85. | Supra Self-Service Store | Dagoretti |
| 86. | Sussy Mini Market | Eastleigh |
| 87. | The Shoppers Paradise | Muthaiga |
| 88. | Sterling Supermarket | |
| 89. | Safeways Zimmerman | Zimmerman |
| 90. | Shaflu's Supermarket | Ongata Rongai |
| 91. | Star Avenue Park | Avenue Park Estate |
| 92. | Star Langata | Langata |
| 93. | Star Westlands | Westlands |
| 94. | South C Grocers | South C |
| 95. | Schilada Supermarket | Ruiru |

| | | |
|---|---|---|
| 96. | Swamco Supermarket | Doonholm Estate |
| 97. | Tinara Supermarket | Langata |
| 98. | Tusker Mattresses | City Centre |
| 99. | Typotrade Supermarket | Parklands |
| 100. | Tumus Supermarket | Githurai |
| 101. | Uchumi Supermarket City Centre | City Centre |
| 102. | Uchumi Supermarket City Market | " |
| 103. | Uchumi Koinange Street | " |
| 104. | Uchumi Taveta Road | " |
| 105. | Uchumi Kimathi Street | " |
| 106. | Uchumi Jogoo Road | Eastlands |
| 107. | Uchumi Westlands | Westlands |
| 108. | Uchumi Sarit Centre | Sarit Centre |
| 109. | Uchumi Adams Arcade | Woodley |
| 110. | Uchumi Otiende | Langata |
| 111. | Ukwala Supermarket | City Centre |
| 112. | Ukwala Supermarket | Ongata Rongai |
| 113. | Ushirika Supermarket | Umoja |
| 114. | Umoja Mini | Umoja |
| 115. | Varsani's Mini Supermarket | South B |
| 116. | Villies Shopping Limited | South C |
| 117. | Waiyaki Way Caltlex Stores | Westlands |
| 118. | Westlands Supermarket | Westlands |
| 119. | Westlands General Stores | Westlands |
| 120. | Woodley Grocers | Adams Arcade |
| 121. | Wachuchu | Kenyatta Market |
| 122. | New Westlands | Westlands |
| 123. | Westlands Self Service Store | Westlands |
| 124. | Williams Self Service Store | Ongata Rongai |
| 125. | 711 Supermarket | South C |
| 126. | Anjevan | Ruaraka |
| 127. | Barn's Supermarket | City Centre |
| 128. | Greenspot Supermarket | City Centre |
| 129. | Aladin Supermarket | City Centre |
| 130. | Broadway | Industrial Area |
| 131. | Caledonia Supermarket | Caledonia |

## Data Analysis

**Table 1**

| Location | No. of Supermarkets | Class of Clientele |
|---|---|---|
| City Centre | 27 | A, B, C1, C2, Lower Class |
| Westlands (Muthaiga,Highridge, Sarit) | 17 | A & B |
| Parklands | 4 | A & B |
| Hurlingham | 2 | A & B |
| South B | 4 | B & C |
| South C | 5 | B & C |
| Adams Arcade | 2 | A, B & C1 |
| Langata | 2 | C1 & C2 |
| Afco | 5 | B, C1, C2 & Lower Class |
| Eastlands (Nairobi Environs) | 26 | C1, C2 & Lower Class |
| Industrial Area | 2 | B, C1 & C2 |

Nairobi's urban region can be segmented into five significant areas. This is particularly true with the residential areas and remains one of the most noticeable legacies of the colonial period. There developed during that period four distinct social classes, based in different areas according to race (although A'ngawa mentions three distinct social Nairobi's and forgets the fourth). A white Nairobi, an Asian Nairobi, a Cushite (Somali) Nairobi and an African Nairobi.

In post independence Kenya, however, social barriers have given way to "Economic Barriers" (Tiwani 1973, Ferrero 1979).

North and West of Nairobi had exclusively European residents, and remains mostly so with a handful of Asians and Africans, virtually all heads of Diplomatic Missions and Officials of Non-governmental organisations (NGOs).

The second distinctive residential area is Parklands - Pangani Area located midway North of the City Centre and has 90% of the Asian population in Kenya.

The third distinctive area of concentration which has a mixture of races settling together and has emerged in the last ten years is referred to as Nairobi South B and C respectively. This area houses 75% Africans; 20% Asians and 5% Cushites (Somali Arab races). (Feraro 1979).

The fourth and fifth have with time merged into one, that is, Eastleigh originally meant for Somali Arabs (Muslims), was quickly swamped by the African population East of the City Centre and the whole area is now naturally referred to as Eastlands.

Urbanisation in Eastlands has had far reaching economic transformations making the city grow in a diaspora essentially the product of capitalist development and expansion - thus changes in city boundaries which result in the incorporation of previously rural places.

This structure results in the socio-economic class of Nairobi as:-

**Class Structure of Nairobi**

**Figure 2**

| | | |
|---|---|---|
| **A**<br>Spring Valley<br>Lower Kabete<br>Lavington<br>Hurlingham | **B**<br>Parklands<br>Pangani | **C2**<br>Kahawa<br>Ruaraka<br>Mathare North<br>Huruma |
| **C2**<br>Kibera<br>Kawangware<br>Dagoretti<br>Ngong | City Centre | **C2**<br>Buru Buru<br>Umoja<br>Doonholm<br>Komarock |
| **C2**<br>Langata<br>Ongata Rongai | **C1**<br>South B<br>South C | **C3**<br>Embakasi<br>Kayole |

**A** - North West; (Europeans, Diplomats, NGO Staff)

**B** - Parklands, Pangani (Asians)

**C1** - South B, South C (Mixture)

**C2** - Eastlands and the Lower Class (Africans/Natives)

An indepth field survey about the physical characteristics of particular regions and the socio-economic characteristics of their customers is required for dealing with the framework of supermarkets in Nairobi. Two theories formulated in the early 1930s stand out in explaining the primary reason of the growth of supermarkets in Nairobi.

## 1. Central Place Theory

Formulated by the German Economist and Geographer Walter Christaller[5] in the early 1930s. His model explains the regular locations of tertiary activities being manifest in business centres in an apparent order of the spatial distribution of urban settlements surrounding populations and described as central places.

Central Place Theory is specifically formulated as a theory about marketing behaviour -that is a system of business activities designed to plan, price, promote and distribute want satisfying goods and services to present and potential customers.

## 2. General Interaction Theory

This was first formulated in the 1930's by William Reilly who demonstrated its applicability with his Law of Retail Gravitation. It states that two cities attract trade from an intermediate town in the vicinity of the breaking point approximately in direct proportion to the populations of the two cities in inverse proportion to the squares of the distances from these cities to the intermediate town.

The case of the two centres competing against each other has been expanded to accommodate a whole system of shopping centres and can be focussed on the relationship between consumer expenditure and retail sales. The commonest formula is:

$$Sij = Ki\ Ei\ Aj\ F(dij)$$

Subject to constraints

$$\sum_{i=1}^{n} sij = sj; \qquad \sum_{i=1}^{n} sij = Ei;$$

| | | |
|---|---|---|
| *Where* Sij | = | Expenditure in a centre **j** by consumers in an area **i** |
| Ei | = | Expenditure available in area **i** |
| Aj | = | A measure of shopping attractiveness at centre **j** |
| T(dij) | = | A measure of travel difference from **i** to **j** |

[5] Baskin C.; Central places in Southen Germany Prentice Hall, 1866

The non existence of data and literature makes it difficult to explain this in the chapters but permit only a tenuous relationship to be drawn between these taxonomic distinctions and the differences in underlying accessibility conditions.

Retailing characteristics and growth trends within the regions tend to reflect on the overall economic and cultural differences which are found.

The city centre has 27 supermarkets out of which 20 have sprang up in the last 15 years. This means there has been a minimum level of consumer demand or lower limit of trade to offer support for them to make a profit and become established. Also, the effective size of this demand or trade area support circumscribed as an upper limit, defined as the maximum distance consumers will be prepared to journey to the nearest supermarket before going elsewhere. Other physical circumstances which help explain the growth in a number of city centre supermarkets include:-

1. It is an area with greatest concentration of day time population within the metropolitan complex;

2. Location with highest concentration of foot traffic;

3. Traffic circulation within the city centre makes a single area a convergence of city mass transit system. At least 15 supermarkets are located at Bus stages;

| | | | |
|---|---|---|---|
| a) | Ebrahims | i) | Makro |
| b) | Payless | j) | Sippys |
| c) | Jack & Jill | k) | Nakumatt Athusi |
| d) | Ukwala | l) | Nakumatt downtown |
| e) | Nakumatt checkpoint | m) | Uchumi City Square |
| f) | Uchumi Kimathi St | n) | Alladin Supermarket |
| g) | Uchumi Taveta Rd | o) | Tusker Mattresses |
| h) | Bargain Place | | |

4. The city is a centre of specialized functions; focus of headquarters offices for business, Government and Industrial activities.

5. Convenience and approachability; Some supermarkets require a high degree of accessibility to consumers moving inside a business complex, pedestrian flows in different directions and sides of the streets, corner sites because of greater frontage this gives for window shopping. Proximity to a geographic centre of a business doubles because of the crowd convergence found there.

6. Catchment; Easy access made possible for customers from areas of suitable demographic mix and spending power as well as high streets providing the most viable locations as a factor which impacts on retail strategy.

In essence the City Centre supermarkets have positioned themselves partly owing to the "rule of thumb", that is there is a viable market place within the radius of 3 kms of their supermarket, e.g., Kenyatta Hospital to Uchumi Supermarket City Centre or Kariokor to Ebrahims Supermarket. Therefore market location has played a major factor in the growth of supermarkets rather than the better understanding of needs, perceptions, preferences and targeted resources of targeted Buyers. "This place opportunity is the arena in which a place has a fairly good chance to achieve a competitive advantage". (Phillip Kattler).

The North and West Nairobi form "A" Class residential area initially meant for Europeans and currently occupied by a mixture of races, white, Asians, Africans, Diplomatic corps and NGO staff who still form the most affluent class in Kenya. This wealthy class is also engaged in what may be referred to as modern business sector business and form 10% of the households in Nairobi City. This was the first area that saw the birth of supermarkets in Nairobi region operated by Slater and Whittaker (Europeans) now the Westlands Mall, specifically to serve the European race. It has also witnessed the inclusion of diplomats, Asians and Africans form the Westernized lifestyle and culture. The Class has propensity to spend due to high living standards, high level of awareness as well as the historical concentration of Europeans who gave the drive for supermarkets for their household purchases. The area is also characterized by at least two cars for every household and thus have personal transport for their household purchases which makes it more convenient since they buy in bulk. The low growth rate of population in this area permits high quality life standards to be maintained.

Retail business location phenomena in this area is now transforming into suburban shopping malls like Sarit Centre, The Westlands Mall, Yaya Centre and Esso Plaza. Shopping malls have proliferated shifting retail buying to other strategies and to such trends as greater class and age conscious buying patterns.

The area covering Parklands and Pangani falling between City Centre and the North-West of Nairobi houses the Asian Community which is virtually engaged in industrial and commercial activity. In act Asians control almost 60% of industrial and commercial activity.

Asians form the "B" Class in Nairobi and given their nearness to Westlands and the City, it is possible for them to bypass other shopping centres because of higher levels of individual mobility and purchasing power and shop in Westlands. Asians by nature live in communities and therefore tend to act communally in many respects. As a matter of fact, most of them shop in Westlands where they would meet their friends and family ties to exchange pleasantries. This community aspect also explains why 95% of the supermarkets are run by Asians. This trend is evident in Westlands and South B, where Asians will only buy from fellow Asians. Their background has also enabled them to travel widely and have somehow adopted a western like lifestyle.

The tendency to spend is inherently high by nature as their incomes are also high since they virtually control the economy. Their increased pressure on Westlands as the shopping area accounts for the high number of supermarkets in recent times at Westlands Shopping Centre (with 17 supermarkets) and including the Sarit Centre Mall. Moreover, 50% of the Asians are in their prime age of consumption, that is, 20 to 45, better educated and therefore influence the crowd that shops in Wetlands.

The third area of South B and C exhibits "Dualism" between the upper class and the lower class forms the burgeoning population which has access to income earning opportunities. Community quality of life is a growing factor in this locality, although this does not serve as a complete solution for improving a place's viability and attractiveness. This is a transition class that is conscious of quality of life and therefore gains prominence and assumes multiple forms. The Class consists of a skilled labor force consisting mainly of professionals from both sexes in almost all households.

Eastlands is occupied by the highest population in Nairobi City and mainly of Class C2 and the Lower Class. This part of Nairobi has experienced the highest growth in population concentration and the highest rates of urbanisation has stimulated the decentralization of economic growth as phenomenon in terms of the social production of spatial forms.

The composition of this population varies from middle to lower class workers in the industrial service sector and the vast number of informal sector who survive and cope with limited shared resources. There exists thousands of small family firms engaged in trade, personal services and small scale manufacturing such as Kariobangi South Light Industrial sector, to create livelihoods for thousands living in slums and squatter areas which though meagre in package are preferable to unemployment. The population here has tended to live closer to industrial area, their workplace so as to alleviate the cost and inconvenience of lengthy trips. Eastlands has also a high incidence of shops in relation to the population served. There are numerable kiosks and shops which provide household provisions and in fact this class spends 50 - 70% of their income on household provisions that could be found in a single retail outlet. With a population of almost 1.2 million, the whole region has only upto 10 supermarkets of 10 - 15 thousand square feet.

The relative efficiency of supermarkets in Nairobi which has contributed in a great measure to this structure and growth of supermarkets, is influenced by many factors including personal characteristics. The profiles of entrepreneurs reveal a wide range of social and educational backgrounds and age groups. Most of the supermarkets have been set up by the Asian people who area already familiar with the business either through family upbringing or work experience. They therefore avoid great leaps in the dark. They accept risks but these are usually calculated rather than gambling risks because they want to be able to influence the course of events by their own efforts. The drive is personal gain, a need for personal achievement, self expression and seeking to earn the respect of their community and peer groups, and to contribute to the broader goals of development in specific ways. They are individuals who do not recognize the importance of collective endeavour. Although they have high regard for and take care of their workers, they do not devote anytime and effort to train their personnel in seminars, colleges or any courses related to retailing and in fact do not consider these as essential. They have therefore not developed good management teams to allow expansion of their supermarkets but rather a span of control that they can handle personally. They are open to new ideas and are continually searching for self improvement through contacts with suppliers, customers and other entrepreneurs in the same field; they also keep upto date by reading trade journals and attending trade fairs.

They live and breathe their supermarket day and night. Theirs is not a 7.00a.m. to 5.00 p.m. job; it continues even after closure time (7.00p.m.), to community gatherings, houses over dinner and social activities on weekends.

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# Chapter 3

## Consumer Behaviour

Consumer behaviour is basically customer orientation. The detailed structure of consumer behaviour is extremely complicated, however, and at micro level scale of enquiry, a greater understanding is necessary of the consumer decision making process involved rather than simply the overall influences of locational factors. Consumer behaviour assumes that:

a) The buyer is rational and informed;
b) If the buyer is rational and informed, she/he will prefer the offering that most satisfies his/her needs.

The concept of customer orientation can be defined in terms of the firm's matching or exceeding buyer expectations, since expectations related to the alternative open to the buyer. The level of customer expectations is the level the customer believes is realizable, while the level of customer aspirations is the level the customer perceives as perfect. Many supermarket owners particularly in the City Center start their stores with a "Blind Faith", - that there will be enough customers willing to buy from them to make the business worthwhile. This means they miss opportunities to add value for their customers and also missing opportunities for increased profitability for themselves. The City supermarkets are more concerned with the product being on the shelf than with the customer. Some supermarkets in the city centre are situated in dilapidated buildings in crowded sections of town. This nearness to crowded areas carries the psyche of familiarity so that passers by can invade anytime and buy provision. The City Centre also lacks a fixed class system and having an extremely mobile populations makes buying from supermarkets therein highly possible. Customers in the City Centre use everything to evolve complex means of ascertaining each other's status. Shoppers also face such a wide choice of supermarkets and merchandise, convenience, high quality service or a combination of any or all of these. The individual supermarkets therefore do not carry any clout but can gain market share only at each other's expense. These supermarkets offer the tempting prospects of by-passing direct consumers.

This interactive grabbing of a small slice of retail business or spending of consumers will not wipe out existing store formats altogether. Rather it will accentuate an already existing trend of saturation and an even more intensive competition and nudging shopping power away from retailer to consumers. One more feature may also be that, the regional centres consumers catering mainly to low income consumers are overshadowed by the central areas such that they are often by-passed on shopping excursions.

The city centre in serving mainly the middle income consumers is more central to the urban market and hence attract extra trade. The North West, Parklands and Pangani population share the facilities of the higher order centres, for example Westlands Shopping Centre, Sarit Centre, Yaya Centre, Muthaiga Esso Plaza and Spring Valley. These high income areas show the greatest stability in shopping throughout the week or month: maybe because there are fewer centres.

Most establishments have off-street parking geared to accommodate motor vehicles and to handling goods. Such diverse factors as the growth of female employment and car ownership, the increasing use of deep freezers and domestic appliances, have combined to produce some major changes in the lifestyles of consumers, particularly in the upper class. These factors have altered the traditional patterns and profiles of shopping behaviour. Most noticeably is the reduction in frequent daily trips to centres and much greater emphasis on single weekly bulk-buying trips on Saturdays and Sundays to the largest Centres available - Sarit, Westlands Mall and Yaya Centre. At the same time, there has been a growing demand for more convenience and comfort in shopping which newer centres can obviously provide rather than old centres and supermarkets. These new mall provide a big range of products with the liberalization having released a flood of items from outside the country of food and general merchandise for their supermarkets within. There are too many competitors fighting for market share and have had to adopt to customer driven approach rather than the sales driven approach of the City Centre supermarkets. The market in terms of stores is overcrowded and provided access becomes cheaper, competition in the virtual mall is proven fierce.

The growth of shopping malls has promoted cut-throat competition right at the door steps, there is no customer loyalty - but rather efficiency being paramount which to me means commitment to customer satisfaction. Each supermarket has to carefully analyze the strengths and weaknesses of each competitor together with the opportunities and the threats they face before deciding on strategies to influence customers. All clientele in this region own cars and are very unlikely to become your customers unless their needs are being met now and in the future by, focussing on the tangible and intangible benefits that customers derive from their contact with the business by creating a thoroughly enjoyable "occasion" compatible with their values and lifestyle.

The South B and C, between the Eastlands, clientele can be classified using the old fashioned common sense which recognizes variations between customers because of diverse backgrounds and needs. They differ by age, sex, ethnic origin, income levels, educational standards, type of work they do, type of leisure activities, type of home in which they live and many other variants. The skill with which the supermarkets select particular groups of people will be the target in this region.

a) The professionals who enjoy shopping and are reluctant to spend their time and leisure.

b) The wives and possibly children of these professionals who are keen to ensure that their families have adequate provisions.

c) Younger men and women who are keen on budgets and thus make errands for shopping in supermarkets.

d) The general informal sector population which believes supermarkets are cheaper than shops and kiosks and could thus save substantially on their meagre resources.

Marketing to these customers is not as much a technical marketing problem of methods, messages and targets as it is in defining place development in the values of the public framework. (Kottler).

More people in this category will have more money with which to go shopping so more and more shops are being built to meet this demand. The result is therefore poorer sections of the society remain dependent on the traditional types of shopping centres which are likely to become impoverished and severely run down.

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# Chapter 4

## Advertisement - A Critique

Advertising is to inform, persuade and remind the public of a particular product or service and doing so at a low cost per head to the company personal selling or exhibition.

Advertising may seek to create either a brand image for the product concerned or corporate image for the company in general. Most supermarkets in Kenya advertise at the beginning, mid and month ends. Obviously the supermarkets know too well that the population has earned and therefore ready to spend on necessities. Indeed it does attract cues in the supermarkets and the customers keenly await for these advertisements of price reductions before deciding when to do shopping otherwise they will never get a good deal at any other time.

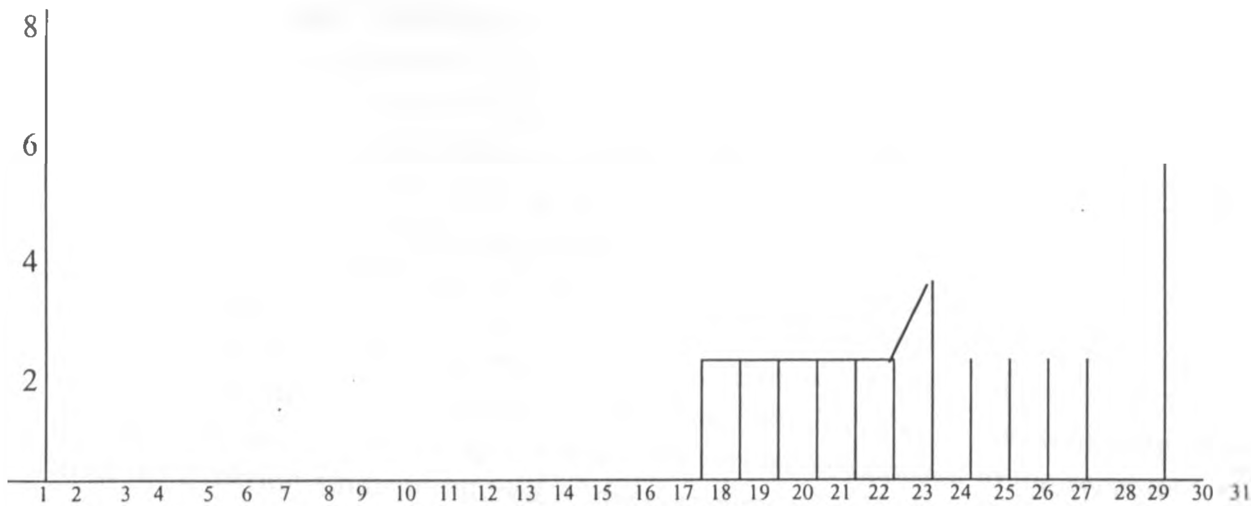
The table below clearly shows the trend of advertisement.

**Supermarket Advertisements during the Months of August 1996 in the Daily Nation Newspaper**

**Table 2**

| Dates | No. Of Adverts | Supermarkets |
|---|---|---|
| 5 - 12 Aug. 1996 | 0 | - |
| 18-23 Aug. 1996 | 2 | - |
| 24 Aug. 1996 | 3 | Nakumatt (2); Uchumi (1) |
| 25 Aug. 1996 | 2 | Nakumatt (1); Uchumi (1) |
| 26 Aug. 1996 | 2 | Nakumatt (1); Uchumi (1) |
| 27 Aug. 1996 | 2 | Nakumatt (1); Select "N" Pay (1) |
| 28 Aug. 1996 | 3 | Nakumatt (1); Uchumi (1); Vishal (1) |
| 30 Aug. 1996 | 6 | Nakumatt (2); Vishal (1); Uchumi (1);Ukwalla (1); Jamia (1) |

Most advertisments are on offers, and in fact, 90% appear during the last few days of the month.




**Calendar Month - August 1996**

The figure graph above clearly shows the trend of advertisement. Traditionally the decisions about merchandising, pricing and promotions are highly centralized and made at corporate level. (C.K. Karemu). All advertisements peg themselves on reduction of prices giving strong brands an advantage but with a wishful thinking of attracting human traffic. When these advertisements appear in the papers they treat all customers as the same. They cannot break that anonymous mass into segments. Supermarkets spend millions on advertising beamed at people who are indifferent or even hostile to it. Retailers have thus become traditional thinkers of themselves as merchants, as buyers and sellers of goods. Supermarkets dip into their national pool of promotion money to offer discounts on popularly branded products like *Kimbo, Omo, Stayfree, Colgate or Aquafresh* every end and beginning of the month.

The strategy of everyday low prices that offers the customers a better deal and saves on merchandising and advertising costs has not yet taken root. Low prices in turn mean that retailers can save even more by eliminating the expense of frequent promotions. Stable prices also makes sales more predictable thus reducing stockouts and excess inventory. Finally, everyday low prices bring in the customers, which translates into higher sales per retail square foot. These advantages in basic economics provide customers with access to quality goods, making these goods available when and where customers want them, and developing a cost structure that enables competitive pricing and to build and maintain a reputation for absolute trustworthiness.

The proliferation of supermarkets necessitate a shift away from in-store sales and promotions that are an industry (a manufacturer) convention to a quiet revolution that confers overall benefits that are greater than the presumed financial gains from running up volume with price cuts and rebates of branded merchandise. Advertisement should look beyond internal processes and see for example, the total value chain in the case of supermarket chains as consumers will not pay for their sloppiness. Swings in price create variability and massive inefficiency in the distribution system. In attempting to meet heavy short-term demands, supermarkets must build inventory which entails excessive warehousing costs, transport rates and handling costs. Virtually all supermarkets whether in the city, Westlands, Eastlands or even those serving niche markets should serve, "just what customers want just when they want it," and operate under uniform standards and policies developed to meet the Company's most demanding customers. Given these standards, logistic managers are aimed to make excellent use of physical assets the company puts at their disposal. Managers have assumed that the more goods flowed through consolidated logistics channels, the more efficient they had been. But being efficient is being viewed because of the functional imperatives, gaining economies of scale and satisfying many different customers with a single standard for service as opposed to the separate view from the evolving strategic interest of the company as a whole. This assumption has become a rationale for making huge logistics pipeline carry an overly complex burden. Cost is incurred and value is destroyed in the management of this complexity-serving customers for more commodity liked products and customers who need specialized products quickly and unpredictably tend to be undeserved as certain products are never covered in advertisement or promotional offers.

Advertisement should have a strategic intent of more about outfacing competitors in building advantages than seeking competitive advantages that are inherently stable. "For advertising messages to be successful in achieving its objective, the individual must be exposed and pay attention to it. Yet even then, there is no guarantee that the individual will interpret it as it is intended. This is because buyers tend to screen out messages that are inconsistent with their own aptitudes and beliefs and interpret information in the light of these beliefs.

Advertising for the buyer community will take into consideration an examination of packages with an understanding of more subtle as well as purely technical issues in order to achieve and maintain competitive continuous responsiveness.

Supermarkets will have market and create new service forms such as accepting credit cards. These will be stated in their advertisements and thus differentiate themselves from other establishments so as to increase their market share. Such advertising will provide tangible clues, making the service more easily understood and contributing to continuity. Such advertisements will also help prospective customers get a mental fix on its product. Marketing of the overall image of the organisation as a brand will be very successful in cultivating its quality image; initially, may be for the upper class and the middle class only. Others will have to trade down by entering competition for the low class and trying to change to middle class. This will make it easy for clientele not to overlap especially when both brands are located in the same city or market. To do so requires the identification of a salient attribute that will make branding meaningful. Many purchases that will be made by consumers shall therefore be directly influenced by the image an individual has of himself and the image of the seller. Buyers need to know how service problems or disruptions will be handled, the likelihood of service improvement, how billing takes place and what options exist for payment.

Advertisements as a media of communication acts as a pre-eminent determinant of perceived service quality. Advertising of particular products by supermarkets have no significant meaning in the face of such consumers and therefore likely to be fruitless and wasteful. The marketer should determine the position his service occupies on the perceptual map; the idea is to be close to the ideal position as possible of the service product in the market place.

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# Chapter 5

## Future Growth And Development

"Success in business is Success in a market."[6] Supermarkets in Kenya are in business by creating products (that is goods and services) but will stay in business only by creating and retaining customers at a profit. In the up-market areas, shopping is a main leisure activity and customers understand the way in which they should be treated. They expect bright cheerful, helpful individuals prepared to take the time and trouble to understand and meet their needs.

This culture scenario is evident in the now busy shopping centres that are changing the supermarket strategy, for example, the shopping malls as in Westlands, Sarit Centre, Esso Plaza and Yaya Centre are moving away from the traditional image supermarket over to a theatre-like atmosphere where people can wonder round and have a thoroughly good time. They are creating an "ambience", within their business which is important to the customers they seek to attract. The car is a dominant factor in this class so much for shopping that convenience in terms of access and as importantly in terms of car parking is vital. It is no wonder that the locations of those malls are out of town shopping areas and move away from high street to where customers will travel for the right retailing location with an adequate car park and depth and breadth of stock in a pleasant retailing ambience. What will matter here is whether there are customers of the right sort to provide the sales you need.

The supermarket in this emerging scenario of shopping malls will grapple with new threats of saturation and consumer pressure forcing down retailers gross margins (their mark-up). Consumers are far more conscious of value for money, more knowledgeable in selecting their goods with service as an ingredient in creating uniqueness. Many supermarkets in the "A" Class rations will also have to cope with the emergence of a middle class of South B and C plus Langata which is newly able to shop for more than bare necessities. Consumers could therefore shop whenever and wherever they want from a potentially limitless range of goods as price comparisons in shopping malls become instant and effortless. Shoppers faced with such a wide choice of shops and merchandise will force skillful retailers to combine greater knowledge of their customers, acquired through database with merchandising flair to create a narrower range of products that their shoppers want rather than trying to cater to all tastes or none.

The most powerful organisations in the retail industry will not be the omnipotent retail chains, but those with close and trusted relationships with consumers.

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[6] Slaughnessy John: Competitive Marketing; A Strategic Approach 2nd Edition P.3.

Population census as a source of market analysis will be necessary. A comprehensive representation of consumer buying habits plus up to date information on income; knowing where people shop and why sales potential due to distribution channels will enable supermarkets to know more about their existing customers than ever before. This can build accurate competitor analysis which is vital when considering site location or locality marketing issues. The demographic centre of gravity is shifting to the youth a trend that will accelerate in the next century because of increasing life expectancy and for many years the shape and focus of the consumer market will be largely geared to the young. The youth would like to be portrayed as attractive and vital and they want products that will not only make them feel good, but also convey that perception to others. This applies to many other areas such as shopping centres, etc. Supermarket business will be led by the demands of the market rather than simple capability of setting up the operations.

The continuing growth of the population in Eastlands as a whole and the suburban has been accompanied by massive shifts in the locational pattern of different socio-economic groups creating new large sources of demand in areas where few if any supermarkets had previously existed. This population is less mobile and has tended to concentrate within its suburban areas and residential estates, and has low purchasing power insufficient to support the surfeit of shopping facilities that are available in the up-market areas like Nairobi North and West regions.

Against the background of a relatively "free" market economy and the absence of a strong body of state and local government planning laws a tremendous number of new and sometimes extremely large, suburban shopping centres have been built and produced too many shops. The growth of supermarkets in Eastlands will therefore exert enormous power and influence over manufacturers and consumers as it will carry clout in many different ways. The traditional "push" is becoming a demand chain driven by consumer "pull" stores.

The growth in the number of supermarkets should provide the battleground for the next few years as retailers will give most of the excitement and the main beneficiaries are of course consumers. What will give continued competitive advantage will be the heart of a firm's strategic vision - the shared understanding of what the firm should be and how it must change. The goal of supermarkets will be to develop those core capabilities that will be effective for multiple strategic segments in a variety of future worlds. These are the capabilities a firm will want to leverage.

Supermarkets (chains) that compete effectively on time, responding promptly to customer complaints - tend to be good at other things as well; for instance, the consistency of their products, quality, the accuracy of their insight into evolving customer needs, the ability to exploit emerging markets, or generate new ideas and incorporate them in innovations. A culture of service excellence embracing the welcome of customers at the door and the strategy of everyday low prices that offers the customer a better deal and saves on merchandising and advertising costs. The management of self-service stores will have to create an environment where they can learn from the market - and from each other.

As markets fragment and proliferate, "owning" any particular market segment becomes simultaneously more difficult and less valuable.

"The excellence in execution would in future distinguish the winners form the losers."[7] This means retailers will have to add new skills in marketing, organizations, logistics, accounting and the management of information and labour to their traditional merchandising prowess. Supermarkets will therefore be run by polished professionals.

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[7] Salmon Walter: Journal of Retailing

# Chapter 6

## Conclusion

"The Government recognizes that the most important resource is its people. More importantly steps must be taken to harness the energies and talents of the youth by directing them into productive activities. About 15.5 Million or 60% of Kenya's population are young people below twenty five years of age and of these 4 Million youths are outside the school system either as unemployed or undertaking small scale income generating activities. The informal sector is the main source of income for about a quarter of the population in urban areas and energizing this sector is an effective means of reducing poverty."[8]

Eastlands remains the only potential area for the growth of supermarkets and possibly at a higher rate than ever experienced in Nairobi. The population increase in this region is inevitable. Although the level of genuine economic development within the urban area is inadequate in relation to the scale and pace of demographic growth, the population pressure will produce a kind of subsistence urbanization in which the ordinary person has only the bare essentials for survival. The ordinary person while generally not as productive per head as the modern sector employee will be more productive per shilling invested and is extremely important not only as the chief source of employment but also in the utilization of local products. The expansion of Eastlands has three components; natural increase, net-in-migration and changes in city boundaries which result in the incorporation of previously rural places such as Njiru, Kayole, Kahawa, Kangemi, Kawangware and Ongata Rongai. This expansion has created a mixed land use pattern with residential and non-residential activities operating on the same or, adjacent large precincts of homogenous land use are replaced by areas which contain fine grain mixture of manufacturing, commercial and residential activities for example, The N.S.S.F. residential project in South B, Imara Daima Estate on Mombasa Road, Umoja and Kayole areas; Mathare North in Ruaraka, Kahawa & Zimmerman Estates in Kasarani and Njiru on the outskirts of Nairobi after Kasarani industrial area. Although there may be environmental hazards in these areas, they do have advantages; less commuting to work, secondary work opportunities are greater and there is vitality reflecting their constant use. Alongside the growth, there has to be a parallel growth of supermarkets in these suburban areas which makes my advocacy for higher growth market share for self-service stores. Although major investors in supermarkets, (Asians) view physical conditions with respect to both flowing and infrastructure in squartments and other living environments of the urban poor as substandard, it should be emphasized that these areas represent a major share of residential construction and national investment, a fact that is generally ignored whereas they represent a catchment area. Moreover, an improvement in availability of

[8] Economic Reforms for 1996-1998: Policy framework paper by the Government, IMF & World Bank; February 16, 1996, P.24

locally produced merchandise to the Class C and Lower Class is a necessary condition for inducing a corresponding increase in marketed output despite the massive increase in imports due to liberalisation policies as the salaried and low wage earners run down their money.

The domestic market liberalization is undergoing change as the Government is easing restrictions on business entry and operations while putting in place appropriate safeguards against anti-competitive behaviour. "This will be achieved by rationalization and a reduction in the number of national and local fees and licenses required for new businesses through minimizing restrictions on retail and wholesale trade and investment under various legislation."[9]

It is only in supermarkets that women will find opportunities for employment that may enable them to compete with men in numbers. About 98% of supermarkets employ only women as cashiers and in their cosmetics departments. "The Government will continue its efforts to ensure that women participate and benefit equally from the development process through their integration into the mainstream activities."[10] It is also arguable that most women work so as to contribute to the maintenance of the family and in fact spend on usual basic goods; "62% of women work to take care of themselves and their children. Only few women work for education thus making shopping their main hobby if not part of their household job."[11] Targeting women as potential buyers will greatly improve the phase and growth of supermarkets among the C and lower class that is growing considerably. A large part of the female labour in Kenya is employed in the informal sector which is beyond the reach of legislation. It seems more reasonable to say women accept low wages because they bear final responsibility for the welfare of their families and need to augment family incomes in order to alleviate the poverty of their household. Overall there is vast manpower potential of women standing ready to be drawn into employment in the Retail Industry.

The "C" Class and Lower class are also favoured in the sense that "the Government will encourage the expansion of donors of micro enterprises schemes and will seek to ensure that women groups in both urban and rural areas are specially targeted." (PFP; p.42). As much as 30% or more of total urban employment in Kenya is in the informal sector, a large proportion are engaged in the wholesale/retail trade. The number of enterprises expand with the size of the urban or market centres and the extent of the local purchasing power; and the Eastlands suburban centres are obviously on the expansion. Many people earn very high incomes in the Informal Sector and a

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[9] Economic Reforms for 1996-1998: Policy framework paper by the Government, IMF & World Bank; February 16, 1996

[10] Economic Reforms for 1996-1998: Policy framework paper by the Government, IMF & World Bank; February 16, 1996

[11] Fepohunda R. Eleanor: The childcare dilemma of working mothers in African cities; The case of Lagos, Nigeria; P.277

substantial proportion of those engaged in this sector are in Nairobi and 60% earn the equivalent of the minimum wages, i.e. Kshs.845.00.

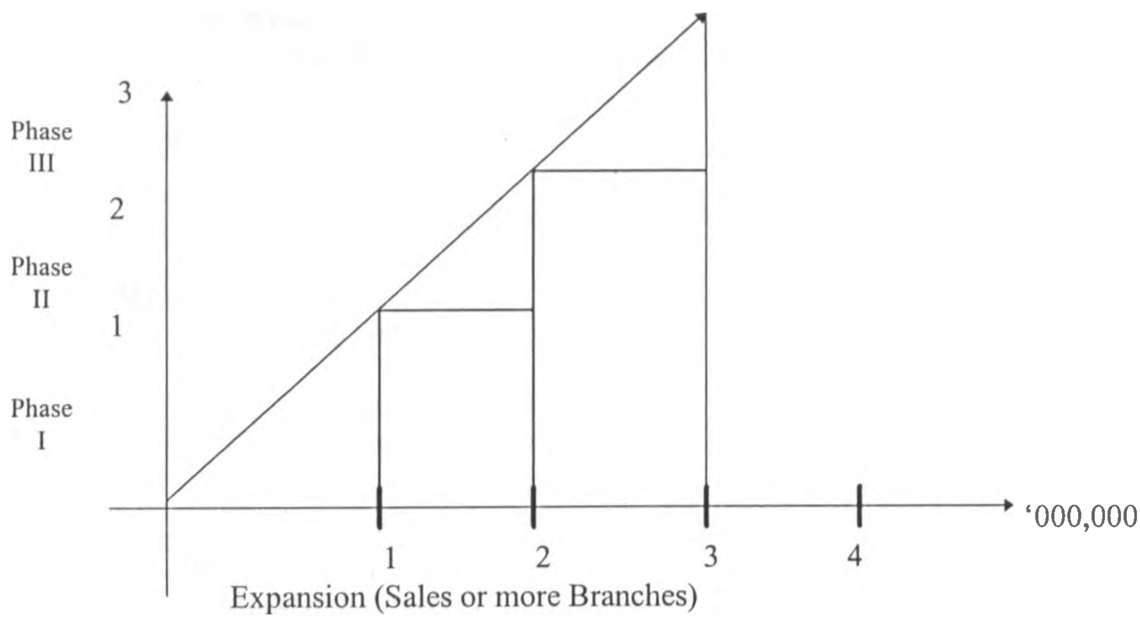
The rural urban migration occurs mainly in the "C" and Lower Classes and constitutes a movement of labour. "The World Bank model projects that employment in the informal sector will rise by 6% annually from 1990 to 2020. The informal sector's contribution to G.D.P. is expected to rise by 7.5% annually and its labour productivity to go up by 1.5% annually. In contrast employment growth in the modern sector is projected to just keep pace with the increase of employment in the economy as a whole. Labour productivity in the modern sector is expected to remain virtually stagnant with a projected annual increase of 0.2%. That means that by the year 2020 only one out of every twenty workers would be wage or salary earners (Civil Service Reform Scheme) and that the modern sectors contribution to the total G.D.P. would decline from 47% to 32%. A survey in 1983 showed that the number of new locally owned private (limited liability) companies registered with the Registrar General ranged from 880 to 1695 annually during the 1980s while new foreign owned companies registered varied from 10 to 58 annually."[12] These figures reflect the growth of markets for self service stores to give service to the accumulating population and demand for goods in the "C" and Lower Class. Currently, the owners of supermarkets work hard enough, long enough and have achieved the first stage of growth in supermarkets. They can generate enough business to justify employing a team of employees and supervisors to meet the needs of a limited number of customers. The second stage of growth will be for supermarkets to differentiate themselves from one another. Most will face problems as they strive to achieve the second stage in growth. This means that the business will cease to be totally dependent on the owner but can afford a team of managers/directors and can generate the finance needed to place the entire business on a sound footing with adequate resources. The problem is the transition to gain the significant increase in the number of customers needed to cover the steep jump in overheads. The supermarkets will need to become more effective in the way in which they set out to identify, attract, satisfy and retain customers. Unless they can do that, they will not gain the financial support they need.

[12] Keith Marsden: Discussion paper IFC Vol.9; African Enterpreneurs; Pioneers in Development; P.2-17

**Table 3**

| | | | |
|---|---|---|---|
| GROWTH SALES (KSHS) | 10,000,000 | 20,000,000 | 30,000,000 |
| GROWTH (PHASE) | 1 | 2 | 3 |

**NB: Table 3 Plotted on a graph gives Figure 3 below**




The Figure above (Figure 3) explains clearly that it will require more sales and thus more effort in the second and succeeding stages of growth than in the first stage.

The Graph above shows how supermarkets in Nairobi have been able to create customers and the structure of the industry. That is the first phase, it will only require a turnover of 10 Million a year for any supermarket to achieve the initial stage and stay on.

The approach will however change to enter and sustain the second phase. The longer period and increase in sales over and above the phase one, (at least twice as much strength) to sustain the phase two stage will be required. (Peter F. Drucker). It will require redoubling of efforts to achieve the second phase as the pace of change quickens.

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