

**RESPONSE STRATEGIES OF BRITISH AMERICAN TOBACCO KENYA LIMITED TO  
MACRO ENVIRONMENTAL CHANGES**

**BY**

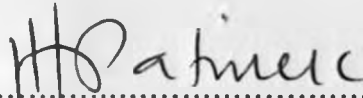
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
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## DECLARATION

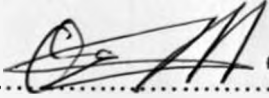
This research project is my original work and has not been presented for a degree in any other university.

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

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My journey in philosophy and the sciences of the mind is a testament to your influence. You have shown me the power of the human mind and the importance of the questions we ask. Your teachings have shaped my worldview and my understanding of the world.

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Finally, I would like to thank my parents, Mr. and Mrs. [Name], for their love, support, and encouragement. They have been the constant presence in my life, and their faith in me has been the driving force behind my achievements. I am forever grateful for their love and support.

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## ABSTRACT

Dynamic environmental changes impact on organizational goals and objectives. This makes it difficult for organizations to remain viable. To be able to stay ahead of competition, it is imperative for organizations to continually scan the environment. This enables the organization to adjust their strategic responses to accommodate the demand of the environment in which they operate. The appropriate strategic responses will guarantee a competitive edge. The last ten years have witnessed tremendous changes in the environment. These changes have greatly impacted on all industries operating in the country.

The research project was a case study of BAT K Ltd. This study had one objective to establish the kind of responses BAT K Ltd has adopted to cope with the macro-environmental changes. In an effort to meet this objective, primary data was collected. Primary data was obtained from personal interviews with the respondents who were responsible for developing strategic responses to the changing environment. These respondents have also been responsible for overseeing the implementation of those responses. The data was then analyzed using content analysis.

This study has established that changing environmental situation in the Kenyan tobacco industry has posed many challenges to BAT K Ltd. Those challenges arose from the changes in the business environment, increased level of taxation, unfair level competition and harsh legislative changes. According to the study findings, BAT K Ltd has addressed its changing macro environment through restructuring, marketing, information technology and lobbying. These responses have culminated in a more competitive BAT K Ltd making it more prepared to adequately match demands of the environment.

A cross-sectional survey covering the whole industry can be undertaken to determine the strategic responses by the firms in the tobacco industry. This would give indications of the responses made by those firms to their changing macro environment. The survey would then allow for industry generalization to be made.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Organizations operate within an external environment. Firms can only prosper if they are well aligned within the external environment. If the environment changes, then the firms must change in response. The microenvironment is shaped by influences emanating from the company at large; population demographics; societal values and lifestyles; government legislation and regulation; technological factors; and, closer to home, the industry and competitive arena in which the company operates (Thompson Jr, Strickland III, and Gamble, 2007). The macro environment in Kenya has been changing quite a lot. Some of the changes includes ; changes in Government policies, liberalization of the Kenyan market creating high levels of competition, start of regional trading blocs like Common Market for Eastern and Central Africa and East African Community, passage of several legislation and the constitution, China's dominance in the Kenya's economy replacing United Kingdom, improved transport and communication due to mobile communication and launch of services helping in quick transfer of money from one person to another using mobile phones.

### 1.1.1 Response Strategies

In meeting the challenge of high-velocity change, the tobacco firms are offensive and take a leading change strategic posture (Thompson Jr, Strickland III, and Gamble, 2007). The firms pioneers in new and better technologies e.g. in IT solutions, Manufacturing, laboratory and product development etc, introduces innovative products that open new markets and spurs the creation of whole new industries e.g. new products such as Dunhill Walrus pack and Summit lights. The firms also seek to set industry standards e.g. in coming up and adhering to IMS2 (international marketing standards two)

The firms employ various response strategies to meet the above actions; seize the offensive (Thompson Jr, Strickland III, and Gamble, 2007). - i.e. not to be defensive. Instead of taking too



much time complaining of the tough environment, the firms faces the challenges head-on and comes up with strategies to counter the challenges .e.g. if Government directs that bars should have separate smoking zones, then the firms works with bar owners in creating separate smoking zones. If a country bans growing of tobacco leaf then the firms imports leaf from other markets. The firms also set the pace by being agents of industry change. This is done by implementing self internal IMS (internal Marketing standards II) which is a self regulating standards on the selling and distribution of cigarettes. The firms are heavily involved in the formulation of policies affecting leaf growing and manufacture and sale of tobacco. By talking to farmers, the firms ensure that farmers concerns are solved as and when they arise.

The tobacco firms uses lobbying as a key strategy in shaping the industry laws and policies e.g. lobbying the parliamentarians to enact fair TCA (Tobacco control Act) laws, lobbying Ministry of Finance in coming up with fair excise and tax policies, lobbying ministry of Health during Public place smoking bans to create several smoking zones, lobbying Ministry of Local Government to discard various bylaws and follow the enacted Tobacco Control Act as that superseded any other bylaws.

The firms also use demographic forecasting as a strategy in assessing consumer's trend and gives the consumers the right brands. Firms key focus market segments are ASU 30 (Adult smokers under the age of 30 years), lights, menthol and GDBs (Global drive brands). The aim of Global drive brands which comprises of Dunhill, Pall Mall, Kent and Lucky Strike is to have an international focus on which brands to push and concentrate the efforts in those particular brands, ASU 30 is the segment which is able to change with the changing environment. It also represents a huge market. Lights and menthol segments are mainly driven by the changing customer tastes and preferences. Customers are more cautious of their health concerns than before hence pushing lights variants than the FF (Full Flavour) variants.

Environmental sensing and R&D policy is a key strategy arising as a result of growing health consciousness and social pressures on smokers in Kenya who have adversely affected the sales of tobacco products. Public pressure has also led to stringent regulations relating to tobacco advertising, methods of promotion, and packaging. Coupled with heavy taxes and court cases

which have eaten into companies profits and share prices, tobacco companies have recently concentrated their marketing efforts on the developing world. The firm senses what may happen in the future and plans before the occurrence. To avoid any further negative publicity, the firms' practices good labour policy and industrial relations.

The firms can not undertake any below the line advertising or promotion. This means that they operate in a dark environment. The only channel left is satisfying consumers and ensuring availability of high quality products. The policy of the tobacco firms is to satisfy existing demand. This means that distributing and ensuring product availability at the consumer point of sale. Success is measured and tracked on monthly bases by measuring parameters such as numeric distribution and OOS (out of stock) Numeric distribution means the number of outlets where a particular brand is available over the total cigarette selling outlets. OOS is measure of outlets which registered stock outs at the time of audit. For the firms to survive they forecast the economic indicators and align the product portfolio. The firms analyze consumers' disposable income trends in determining which cigarette to manufacture. When the economy is performing poorly, they promote low value products such as Safari, Rooster, Rocket and Ralli. With improved economy, the firms promote mid value and premium brands such as Sportsman, Embassy, Dunhill and Summit.

To benefit from synergies and diversify risks, the firms have widened their scope of geographic coverage either in to global or regional coverage. If one area is performing poorly, then another area will support. If one government bans growing of leaf like the case of North Africa, then the other areas will supply leaf. An invention in one market is replicated in the other areas. The global office can also engage Governments of various countries.

To improve on the image of the tobacco firms, the companies have collaborative partnerships and strategic alliances with others e.g. partnership with Total eco challenge in afforestation in the leaf growing areas, partnerships with hotel owners in creating smoking zones etc

### 1.1.2 Tobacco Industry in Kenya

In Kenya, we have two dominant firms dealing in the manufacture and sale of tobacco products. The players are British American Tobacco K Ltd (BAT) and Mastermind Tobacco Company Ltd. (MTK) commanding 80% and 20% in volume share respectively. BAT offers specific brands for specific consumer segments. For the premium segment BAT offers Dunhill and Embassy while for the value for money segment the firm offers Sportsman and SM and Safari and Rooster in the low segment. MTK offers Summit in the premium segment and Supermatch, Ralli and Rocket in the low segment.

Tobacco industry in Kenya has been experiencing several challenges. The tobacco industry operates in the market otherwise referred to as the 'evil sector'. The government has in many instances formulated fiscal policies that are never in favour of the industry. Government has levied high excise duty on cigarettes year on year. The Company has also faced legal constraints that must be considered. These include: By laws by the ministry of health and municipal councils banning smoking in public places, the Tobacco Control Act (2007) has banned stick sales, advertising and promotions. The firms' customer needs have been changing. Due to the rising cost of living, customers are increasingly demanding more affordable cigarettes. Customers are also more health cautious hence are demanding "less" risky cigarettes. The tobacco industry is faced by high levels of illicit trade. Taxman losing Sh. 7.5 Billion through regional illegal trade. Companies' lose about Ksh. 225 million while traders about Ksh. 150 million annually i.e. 25% of cigarette consumption. ("Contraband cigarettes swamp EAC," 2010).

The industry has been shrinking year on year hence questions arising about long term sustainability of the tobacco industry. Due to changing weather patterns, supply of leaf which is a major ingredient of cigarettes has been negatively affected. This has led to expensive sourcing of leaf from other leaf growing areas of Brazil and Uganda. There have been numerous calls to substitute leaf growing with food crops growing with an aim of reaching food sustainability in our country. Organizations have alleged that tobacco industries are using child labour to lobby Government to ban leaf growing and curing. Leaf curing needs use of firewood hence anti

tobacco lobbyists have used that platform to lobby against leaf growing. The smoke the tobacco kilns produces has also been alleged as a big cause of air pollution.

### **1.1.3 British American Tobacco Kenya Limited**

The history BAT Kenya limited began in 1895, when the British Imperial East Africa Company began construction of the Kenya- Uganda railway. Completed in 1906, the railway line opened up the interior, which was, until then, permeable only to indigenous communities trading on foot. In 1907 British American Tobacco sought opportunity and set up operations at the port of Mombasa. In 1924 the protectorate Government bought 740kg of tobacco from Bunyoro district, Uganda and exported it to Liverpool, acting on behalf of the British American Tobacco Company in London. First factory was built in Jinja Uganda. East African Tobacco Company set up operations in Tanganyika and operated a factory in Kampala Uganda. British American tobacco acquired East African Tobacco Company (Uganda) in 1949. In 1952, with its headquarters based in Nakuru Kenya, the first annual general meeting was held. By this time, the company was trading as Rift Valley Cigarette Company, which was formed in the same year by London's Ardath Tobacco Company. In 1956 East African Tobacco Company, by then a subsidiary of British American Tobacco, acquired the rift valley cigarette company. The acquisition saw the company's headquarters moved from Nakuru to Rhokatan House on York Street- present day Lonrho House on Standard Street. In 1961, cigarette factory was built in Dar es Salaam in Tanzania. In 1965 the east African Tobacco Company underwent voluntary liquidation resulting in BAT Kenya limited, BAT Uganda limited and BAT Tanzania Limited. All reported to the principle company in London, UK. In 1969 BAT Kenya limited became a public company, listing 20% of its shareholding on the Nairobi stock exchange. In 1975 BAT Kenya limited began growing tobacco in Kenya with contracted small-scale farmers. In 1978 Green leaf threshing plant was built in Thika. In 2007 BAT Kenya celebrated 100 years. (BAT, 2007)

BAT has sustained a significant global presence for over 100 years. The business was founded in 1902 and by 1921 had become one of the world's top dozen companies by market capitalization. Today, BAT is the world's second largest group by global market share, with over 53,000 employees and brands sold in more than 180 markets. BAT makes cigarettes chosen by one in

eight of the world's one billion adult smokers and holds robust market positions in each of the regions with leadership in over 50 markets. BAT is an international tobacco company with significant interest in tobacco leaf growing and work with thousands of farmers internationally, providing them with agronomy support and guidance in environmental best practice. BAT believes that because its products pose risks to health, it is all the more important that they manage the business responsibly. (BAT, 2007)

While more than 95% of the world's smokers consume ready made cigarettes, BAT also makes cigars, roll-your- own and pipe tobacco brands in the portfolio. In the BAT cigar portfolio includes the hand-made premium Dunhill signed range. Some of group companies sell Swedish – style snus, a form of smokeless tobacco that is placed under the lip and is acknowledged by several independent health experts as being much less harmful than cigarettes. It's sold under the Lucky Strike, Peter Stuyvesant and Du Maurier brands. (BAT, 2007)

BAT's business is not about encouraging people to start smoking or to smoke more, but about meeting the preferences of adults who have chosen to consume tobacco, and differentiating BAT's brands from competition. BAT does not believe in a 'one size fits all' approach. The portfolio has 300 brands based on distinct consumer segments –international, premium, lights, and adult smokers under age 30 years (ASU 30). The four global drive brands are Dunhill, Kent, Lucky strike and Pall Mall. The international brands include Rothmans, Kool, Benson & Hedges, State express 555, Peter Stuyvesant and John player Gold Leaf. (BAT, 2007)

BAT's vision is to achieve leadership of the global tobacco industry in order to create long-term shareholder value. BAT defines leadership in both a quantitative and qualitative sense. Quantitatively, BAT seeks volume leadership among its international competitors and in the longer term, value leadership. Qualitatively, BAT's aim is to lead the industry as the preferred partner of key shareholders and in demonstrating responsibility. The strategy to deliver the vision is based on growth, productivity, responsibility and building a winning organisation. (BAT, 2007)

BAT seeks to increase volume and value share of the global tobacco market through both organic growth and mergers and acquisitions. BAT is saving money by turning a multinational business operating in over 180 markets in to an integrated global enterprise that can take advantage of its scale. BATs business principles are mutual benefit, responsible product stewardship and good corporate conduct. BAT does this by ensuring progressive reduction of the tar and toxins in her products among supporting other initiatives. BAT as a winning organization is achieved by ensuring that BAT has the right people and the right working environment. (BAT, 2007)

## **1.2 Statement of the Problem**

Despite the many difficulty challenges to the business, including economic and political instability, a further substantial rise in excise rates and widespread confusion over the implementation of the Tobacco Control Act, BAT was able to strengthen its leadership position within the industry growing its market share position to its highest in 10 years (BAT, 2008). The tobacco industry has been faced with numerous challenges. Among them are increases in excise, counterfeits, duty not paid cigarettes and unfair level competition. The question then is how BAT K Ltd survives in such a turbulent environment.

The firms have used diverse strategies to counter the changes. Lobbying is the most preferred strategy in influencing excise regimes and enactments of new laws. Cooperation has been chosen as strategy in dealing with the Government of the day. Tobacco firms have also used platforms of responsible corporate citizenship because of their big contributions to the exchequer to show importance of the cigarette business in Kenya (BAT, 2009).

BAT K Ltd has been affected by the Tobacco control Act 2007. Among clauses of the Act that negatively affected sale of tobacco were banning stick sales, public place smoking, any advertising or tobacco communication, free samples and display of tobacco products (Government of Kenya, 2007). In the social cultural environment BAT K Ltd has been over the years being negatively affected by the social cultural perception that women who smoke are immoral. In the economic environment, BAT K Ltd has been negatively affected by the Government selective increase in excise on the firm's products. This has been so as the

Government has selectively chosen to increase excise on the premium and sub premium segments where BAT K Ltd dominates. This has made cigarettes more and more expensive to the common consumers. It is therefore important for BAT Kenya Ltd. to undertake changes in response. It needs change strategies. Despite all the above negative environmental changes, BAT has excelled in improving growth turnover, earnings/dividend per share, profit before income tax and contribution to government revenue as shown in the table below;

	2005	2006	2007	2008	2009
Growth turnover (Ksh. Bns)	11	13	15	17	19
Dividend per share (Ksh.)	13	12	17	17	15
Profit before income tax (Ksh. Bns)	2	1.7	2	2.4	2.1
Contribution to Government revenue (Ksh. Bns)	5	5.9	7	8	9

*Source: BAT (2009) Annual Review and Financial Statements; pp 3*

Several researches on Macro environment have been done but none has focussed in the tobacco industry after the implementation of the Tobacco Control Act of 2007. Local studies pertaining the macro environmental challenges to firms include the following; Gitobu (2000), determining the influence of macro economic indicators on stock market indicators; Muturi (2000), strategic responses by firms facing changed competitive conditions a case of EABL Ltd; Rarieya (2001), a survey of social responsiveness of pharmaceutical firms to the HIV/aids pandemic ,a case of selected firms in Kenya; Mwangi (2002), effects of tobacco regulation on the marketing mix of tobacco firms in Kenya; Muturi (2003), strategic responses by Christian churches in Kenya to changes in the external environment , a case of evangelical churches in Kenya; Mwanthi (2003), strategic responses of BAT (K) limited to current environmental challenges; Mulema (2004), responses to changes in the external environment in service industry, a case of TSC; Mutua (2004), responses to changing environmental conditions, a case of university of Nairobi; Lalampaa (2006), responses by HELB to the environmental challenges of financing higher education in Kenya; Mutugi (2006), responses of micro finance institutions in Kenya to the turbulent business environment; Abong'o (2007), responses adopted by private universities in Kenya to cope with the changing higher education environment; Kashero (2008), strategic responses to changing environment at Lloyd Masika; This study is therefore meant to fill the gap

in the identifying the recent micro environmental changes affecting BAT (K) Ltd and showing which strategies the firm has adopted to cope with the macro-environmental changes. This research project therefore addresses the following research question; what strategies BAT (K) Ltd has adopted to cope with the macro-environmental changes?

### **1.3 Research Objectives**

This study aims to achieve the following research objective; to establish the kind of responses BAT K Ltd has adopted to cope with the macro-environmental changes during that period.

### **1.4 Significance of the study**

The study would be helpful to researchers and academicians to assist them understand and manage the turbulent environment affecting the tobacco firms in Kenya. It will also provide information for further research into the industry. This study will also be helpful to managers and consultants working in the tobacco firms as it shows how firms can operate in a negative turbulent environment and still keep on posting health financial reports.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

All companies operate in a “macroenvironment” shaped by influences emanating from the company at large; population demographics; societal values; government legislation and regulation; technological factors; and, closer to home, the industry and competitive arena in which the company operates. (Thompson Jr, Strickland III, and Gamble, 2007). (Johnson S, Scholes K, and Whittington R, 2005) uses pestel framework to categorize environmental influence in to six main types: political, economic, social, technological, environmental and legal.

### **2.2 Organizational Environment**

Strictly speaking, a company’s macroenvironment includes all relevant factors and influences outside the company’s boundaries. A host of external factors influence a firm’s choice of direction and action and, ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, can be divided in to three interrelated subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 1997). The remote environment comprises factors that originate from beyond, and usually irrespective of, any single firm’s operating situation-economic, social, political, technological, and ecological factors (Pearce and Robinson, 1997). That environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence.

Economic factors concern the nature and direction of the economy in which a firm operates. (Pearce and Robinson, 1997). Because consumption patterns are affected by the relative affluence of various market segments, in its strategic planning each firm must consider economic trends in the segments that affect its industry. On both the national and international level, it must consider the general availability of credit, the level of disposable income and the propensity of people to

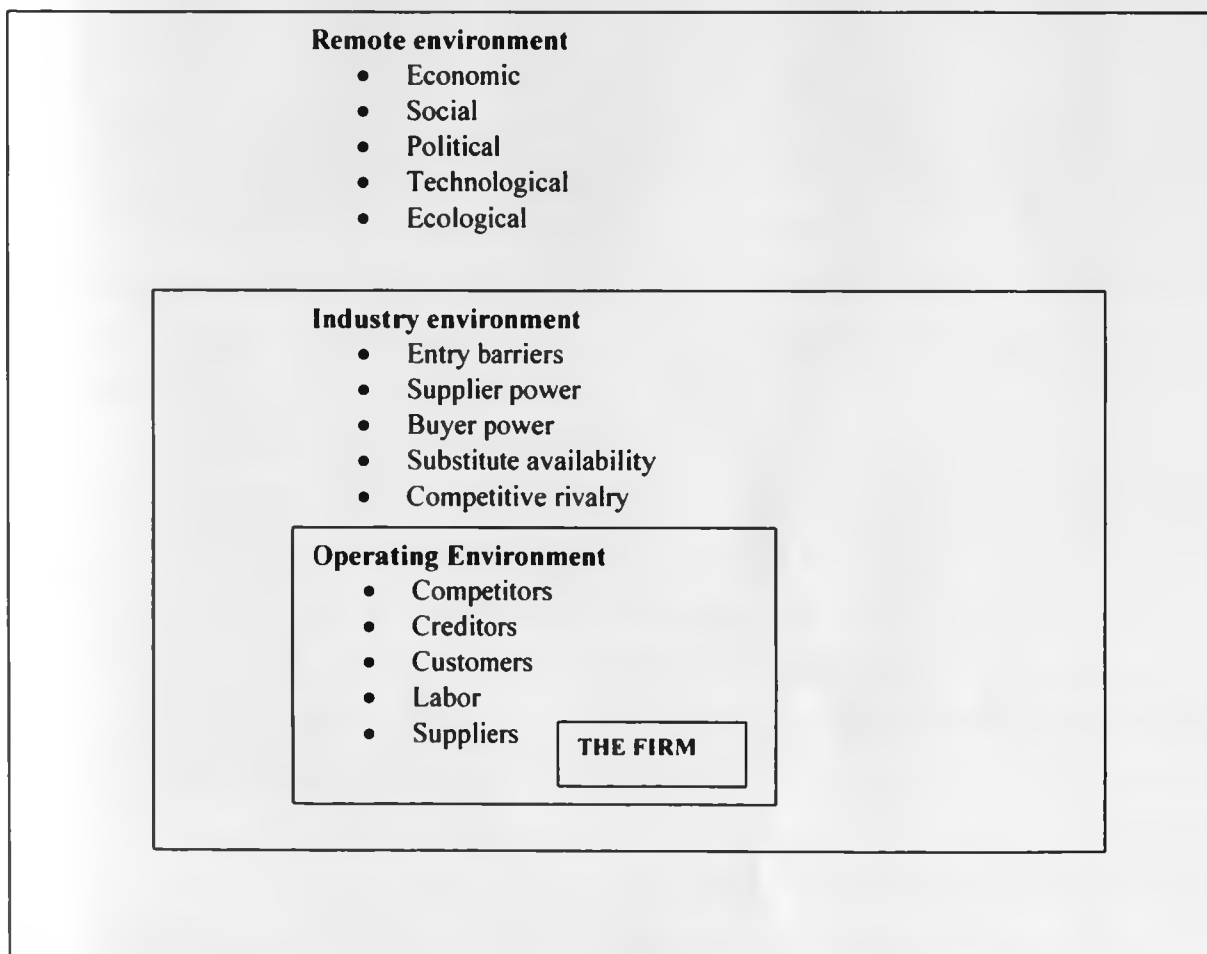
spend. Prime interest rates, inflation rates, and trends in the growth of gross national product are other economic factors it must consider.

The social factors that affect a firm involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning. As social attitudes change, so too does the demand for various types of goods and services. One of the most profound social changes in recent years has been the entry of large numbers of women in the labour market. This has greatly expanded the demand for a wide range of products. A second profound change has been the accelerating interest of consumers and employees in quality-of-life issues. Working time, opportunities for advanced training, paid leave days and increased wages and salaries. A third profound social change has been the shift in age distribution of the population.

The direction and stability of political factors is a major consideration for managers in formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on firms through fair trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies, administrative jawboning, and many other actions aimed at protecting employees, consumers, the general public, and the environment. Since such laws and regulations are most commonly restrictive, they tend to reduce the potential profits of firms. However, some political actions are designed to benefit and protect firms. Such actions include patent laws, Government subsidies, and product research grants. Thus, political factors may either limit or benefit the firms they influence. Government decisions regarding the accessibility of private businesses to government – owned natural resources and national stockpiles of agricultural products will profoundly affect the viability of the strategies of some firms. Government demand for products and services can create, sustain, enhance, or eliminate many market opportunities. The Government can operate as an almost unbeatable competitor in the market place. Thus, knowledge of government's strategies gained through assessment of the remote environment can help a firm avoid unfavorable confrontation with the government as a competitor (Pearce and Robinson, 1997).

The fourth set of factors in the remote environment involves technological change. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques. The term ecology refers to the relationship among humans and other living things and the air, soil, and water that support them (Pearce and Robinson, 1997). Threats to our life-supporting ecology caused principally by human activities in an industrial society are commonly referred to as pollution.

**Figure 2.1: The Firm's External Environment**



Source: Pearce and Robinson (1997) strategic Management; Formulation, Implementation and Control; pp 63

Harvard professor Michael E. Porter's book *competitive strategy* propelled the concept of industry environment into the foreground of strategic thought and business planning. The nature and degree of competition in an industry hinge on five forces: The threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services (where applicable) and the jockeying among current contestants. (Pearce and Robinson, 1997).

Whatever their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favor. (Pearce and Robinson, 1997). The strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation.

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources (Pearce and Robinson, 1997). Companies diversifying through acquisition into the industry from other markets often leverage their resources to cause a shake-up. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If the barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering.

There are six major sources of barriers to entry; economies of scale, those economies deter entry by forcing the aspirant either to come on a large scale or to accept a cost disadvantage. Scale economies in production, research, marketing, and service are probably the key barriers in the mainframe tobacco industry. Economies of scale can also act as hurdles in distribution, utilization of the sales force, financing, and nearly any other part of business. Product differentiation, brand differentiation creates a barrier by forcing entrants to spend heavily to overcome customer loyalty (Pearce and Robinson, 1997). Advertising, customer service, being first in the industry, and product differences are among the factors fostering brand identification. Capital requirements, the need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in up-front advertising or R and D.

Capital is necessary not only for fixed facilities but also for customer credit, inventories, and absorbing start-up losses.

Cost disadvantages independent of size, entrenched companies may have cost advantages not available to potential rivals, no matter their size and attainable economies of scale. These advantages can stem from the effects of learning curve (and of its first cousin, the experience curve), proprietary technology, access to the best raw materials sources, assets purchased at preinflation prices, government subsidies, or favourable locations. Sometimes cost advantages are legally enforceable, as they are through patents. Access to distribution channels, the new boy on the block must, of course, secure distribution of his product or service. A new cigarette, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more the existing competitors have these tied up, obviously the tougher that entry into the industry will be. Sometimes the barrier is so high that, to surmount it, a new contestant must create its own channels. Government Policy, the Government can limit or even foreclose entry to industry with such controls as license requirements and limits on access to raw materials. Regulated industries like cigarettes and liquor retailing are such examples. Controls will include adherence to hard tax and excise conditions before a license is issued by the Government.

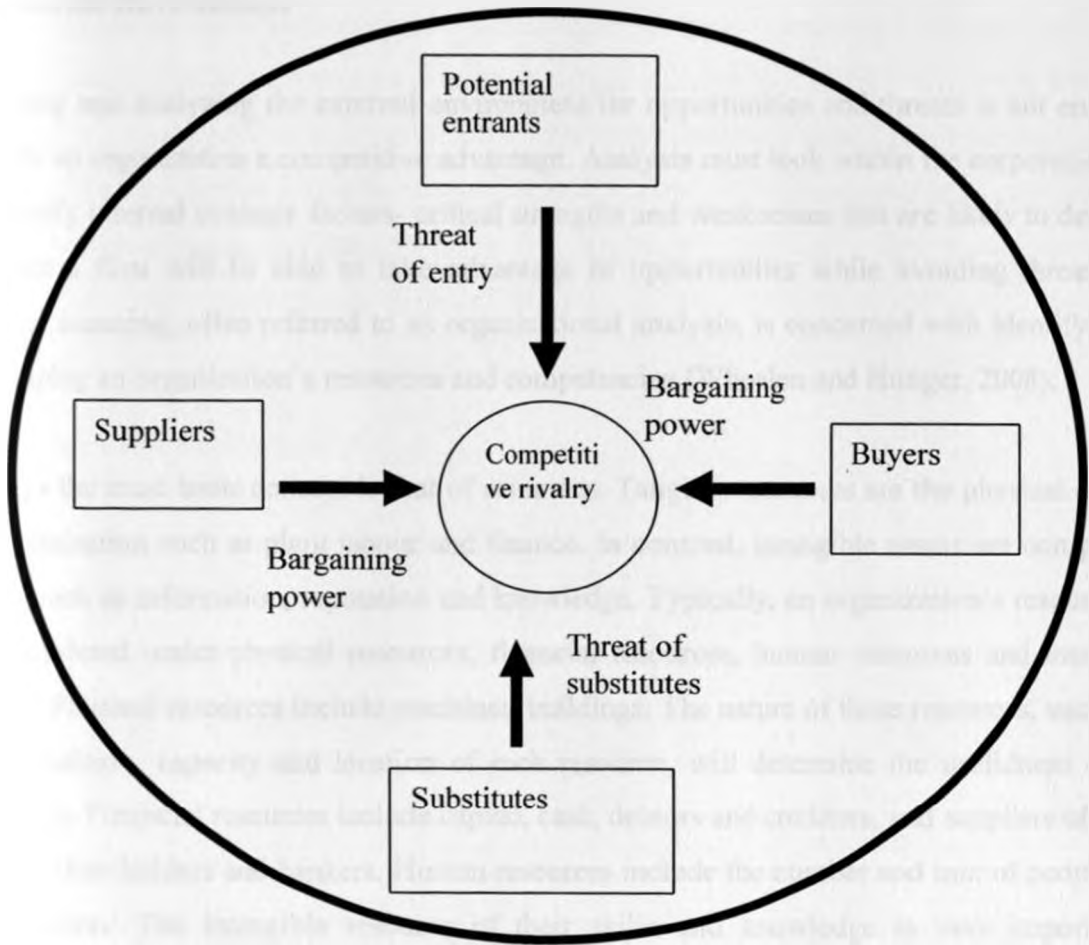
Suppliers can exert bargaining power on participants in an industry by rising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. Customers likewise can force down prices, demand higher quality or more service, and play competitors off against each other, all at the expense of industry profits.

A supplier group is powerful if; It is dominated by a few companies and is more concentrated than the industry it sells to, its product is unique or at least differentiated, or if it has built switching costs, it poses a credible threat of integrating forward in to the industry's business, the industry is not an important customer of the supplier group. If the industry is an important customer, suppliers' fortunes will be closely tied to the industry, and they will want to protect the industry through reasonable pricing and assistance in activities like R and D and lobbying.

A buyer group is powerful if; it is concentrated or purchases in large volumes, the products it purchases from the industry are standard or undifferentiated, the products it purchases from the industry form a component of its product and represent a significant fraction of its cost, the buyers are likely to shop for a favourable price and purchase selectively ( Pearce and Robinson .1997). Where the product sold by the industry in question is a small fraction of buyers' costs, buyers are usually much less price sensitive ,the industry's product is unimportant to the quality of the buyers' products or services , the industry's product does not save the buyer money. Where the industry's product or service can pay for itself many times over, the buyer is rarely price sensitive, rather, he is interested in quality, and the buyers pose a credible threat of integrating backward to make the industry's product.

By placing a ceiling on prices it can charge, substitute products or services limit the potential of an industry. Unless it can upgrade the quality of the product or differentiate it somehow,(as via marketing), the industry will suffer in earnings and possibly in growth.

**Figure 2.2: The five forces framework**



*Source: Johnson, Scholes and Whittington (2005) Exploring Corporate Strategy; pp 80*



## 2.3 Internal Environment

Scanning and analyzing the external environment for opportunities and threats is not enough to provide an organization a competitive advantage. Analysts must look within the corporation itself to identify internal strategic factors- critical strengths and weaknesses that are likely to determine whether a firm will be able to take advantage of opportunities while avoiding threats. This internal scanning, often referred to as organizational analysis, is concerned with identifying and developing an organization's resources and competencies (Wheelen and Hunger, 2008).

Perhaps the most basic concept is that of resources. Tangible resources are the physical assets of an organization such as plant labour and finance. In contrast, intangible assets are non physical assets such as information, reputation and knowledge. Typically, an organization's resources can be considered under physical resources, financial resources, human resources and intellectual capital. Physical resources include machines, buildings. The nature of these resources, such as the age, condition, capacity and location of each resource, will determine the usefulness of such resources. Financial resources include capital, cash, debtors and creditors, and suppliers of money such as shareholders and bankers. Human resources include the number and mix of people in an organization. The intangible resource of their skills and knowledge is very important. In knowledge -based economies people do genuinely become the most valuable asset. Intellectual capital is an important aspect of the intangible resources of an organization. It includes patents, brands, business systems, and customer databases (Johnson S, Scholes K, and Whittington R, 2005)

One of the most important aspects of appraising a company's resources strengths has to do with its competence level in performing key pieces of its business- such as supply chain management, research and development, production, distribution, sales and marketing, and customer service. Which activities does it perform especially well? And are there any activities it performs better than rivals? A company's proficiency in conducting different facets of its operations can range from merely a competence in performing an activity to a core competence to a distinctive competence. A competence is something an organization is good at doing it is nearly always the

product of experience, representing an accumulation of learning and the build-up of proficiency in performing an internal activity. A core competency is a proficiently performed internal activity that is central to a company's strategy and competitiveness. A core competence is more valuable resource strength than a competence because of the well-performed activity's core role in the company's strategy and the contribution it makes to the company's success in the market place. A distinctive competence is a competitively valuable activity that a company performs better than rivals. A distinctive competence thus signifies even greater proficiency than a core competence (Thompson Jr, Strickland III, and Gamble, 2007).

## **2.4 Organizational Responses**

Increasingly organizations are recognizing that they have options other than reacting to environmental forces (Bateman and Zithaml, 1993). They can take actions to change their environment to meet their needs. This is the philosophy of environmental management. Environmental management refers to proactive strategies aimed at changing the environment context in which the organization operates. Examples include acquiring a company in a new market, Lobbying state or national government for changes in the laws, actively managing the company's image and public relations, and taking legal actions against competitors. The three general types of environmental management strategies are strategic maneuvering, independent strategies, and cooperative strategies

Strategic maneuvering is the firm's conscious effort to change the boundaries of its task environment. The strategies under Strategic maneuvering includes; domain selection ie entering industries or markets with limited competition or regulation and ample suppliers and customers – entering high growth markets, diversification, merger and acquisition and divesture ie selling one or more businesses. Some companies called prospectors are more likely than others to engage in Strategic maneuvering. Aggressive companies continuously change the boundaries of their task environments by seeking new products and markets, diversifying, and merging or acquiring new enterprises. In these and other ways, corporations put their competitors on the defensive and force them to react. Defenders, on the other hand, stay within a more limited, stable product domain. (Bateman and Zithaml, 1993)

According to Bateman and Zithaml, (1993) a company uses independent strategies when it acts on its own to change some aspect of its current environment. Under independent strategies we have; competitive aggression i.e. exploiting a distinctive competence or improving internal efficiency for competitive advantage , competitive pacification i.e. independent action to improve relations with competitors, public relations , voluntary action i.e. voluntary commitment to various interest groups , causes and social problems, legal action i.e. company engages in private legal battle with competitor on antitrust, deceptive advertising or other grounds, and political action where the firm attempts to influence elected representatives to create a more favourable business environment or limit competition.

In some situations, two or more organizations work together using cooperative strategies. Companies cooperate in their attempts to change their environments when; taking joint action will reduce their costs and risks and cooperation will increase their power i.e. their ability to successfully accomplish the changes they desire. Under cooperative strategies we have contracting where there a negotiation of an agreement between the organization and another group to exchange goods, services, information, patents etc, cooptation i.e. absorbing new elements in to the organization's leadership structure to avert threats to its stability or existence and coalition where two or more groups coalesce and act jointly with respect to some set of issues for some period of time. (Bateman and Zithaml, 1993)

Pearce and Robinson (1991) define strategic responses as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. It is thus a reaction of what is happening in the environment of the organization. The top management spent a lot of their time in trying to cope with uncertainties induced by the environment. These uncertainties include competitors' moves, technological changes and economic fluctuations.

The assessment of environmental threats and opportunities and organizational strengths and weaknesses are the core to developing strategic responses. Strategic diagnosis helps the organization in determining changes to be made to its strategies and internal capabilities. Restructuring, shrinking, selective marketing, and cost cutting constitute strategic responses that firms use when the environment changes. Restructuring is based on the notion that some

activities within a business value chain are more critical to the success of its strategy than others. (Pearce and Robinson, 1991). Process restructuring aims at bringing the company to an acceptable level of performance. It covers activities such as marketing, product development and service delivery with the aim of cutting cost. Functional restructuring involves laying off redundant staff or training the staff in functional skills where they are encouraged to acquire new skills. Downsizing may occur by reducing workload as well as eliminating functions. Downsizing helps firms to lower overhead, speed up response and eliminate red tape. Ansoff and McDonnell (1990) have identified three ways management responds to environmental changes as reactive management, decisive management and planned strategic management.

Reactive management reacts to environmental changes by using already historically successful measures. The initial response would therefore be cost reduction, efficiency improvement, and sales aggressiveness among others, unless the threat/opportunity has been identified by special forecast thus warranting special treatment (Ansoff and McDonnell, 1990). According to Ansoff and McDonnell (1990), in established firms which have enjoyed a long history of success, the mere presence of persuasive data frequently fails to trigger response, hence delaying the response time. This is attributed to four factors; first, systems delay due to time consumed in observing, interpreting, collecting and transmitting information to responsible managers. Secondly, verification delays as managers choose to wait for the threat to blow itself out. Third, political delays whereby managers want to delay change to avoid becoming scapegoats should the impact of change prove negative. Fourth are unfamiliarity rejection delays. Managers are trained to trust prior and familiar experiences and reject unfamiliar ones as improbable and invalid. According to Ansoff and McDonnell (1990), the above four delays postpone the responses past the rational trigger point and will substantially increase the cost to the firm; they refer to such responses as reactive management.

In decisive management, firms do not engage in environmental surveillance or forecasting. However, they are quick to learn from failure of conventional responses and are quick to cut losses. As soon as the data show that cumulating loss of profit cannot be due to normal fluctuations, the management triggers a response. This kind of change management is characteristic of small firms led by young aggressive management (Ansoff and McDonnell, 1990).

## 2.5 Planned Strategic Responses

For organizations engaged in planned strategic responses, one would expect to find anticipation of threats and opportunities to be matched by anticipatory response. However Ansoff and McDonnell (1990) argue that many organizations that engage in forecasting exhibit the same procrastination behaviour of reactive firms. They attribute this behaviour to the nature of forecasted information.

In many firms, forecast of economic conditions, sales, earnings and costs are extrapolative in the sense that they project past performance patterns in to the future. In such forecast the early impact of discontinuous departures from historical trends remains hidden behind the normal statistical fluctuations induced by economic and competitive activities. Only when the impact become enough to stand out from the pattern does management become aware of discontinuities. By this time Ansoff and McDonnell (1990) contend that the advantages anticipation may have been lost.

A growing number of firms use non extrapolative technological forecasting , structural economic forecasting which are specifically addressed to identifying threats and opportunities posed by strategic discontinuities, this provide information (Ansoff and McDonnell, 1990), they further contend that if the forecast are given enough time horizons , they would the firm to complete its response before the threat can do any damage. Experience however show that in many firms such forecast remains unheeded and procrastination may last until after the threat has become a painful reality. Ansoff and McDonnell (1990) agree that even if there is system delay in planned strategic response, this delay is smaller than in any other response case. This is because in reactive management the information is derived second hand data intended to measure past performance and in planned management, threat /opportunity forecasting is primary input data.

Ansoff and McDonnell (1990) argue that as firms try offsetting smaller systems delay, they end up creating larger delay due to verification, political resistance, and unfamiliarity rejection. The fact that the triggering information is conjectural and no longer based on painful experience as it

is in the case of reactive management, reinforces and provides justification for the natural delay tendencies in all the three earlier mentioned categories.

According to Ansoff and McDonnell (1990), the period between the first awareness of the threat and the point in time at which management turns to coping with it may last months or even a year. The significance of trigger point is that it ushers in extraordinary, non-routine measures in two classes, the first copes with discontinuous changes in the firm's relationships to the environment in its internal dynamics and in its value system e.g. diversification to new business, divestment from major product lines, major reorganizations, introduction of strategic planning systems. These dynamics change the face of the firm, alter perspectives and introduce new ways of life. These are called strategic measures (Ansoff and McDonnell, 1990). The second class of measures also called operating measures, stop short of changing familiar relationships. Nevertheless they are drastic enough e.g. unusual major sales promotion, write off assets, a drastic price cut disposal of obsolete inventories, freeze on hiring, cut back on expenditure.

According to Ansoff and McDonnell (1990), majority of firms will find operating measures familiar and acceptable, either because they have tried before or because their impact can be forecasted with confidence. Strategic measures, however, will be acceptable only in a small minority of firms which have previously made drastic strategic changes away from life. For the majority which had historically confined themselves to incremental strategic change, drastic measures appear strange, risky and threatening.

Strategy avoidance response typical of reactive management assumes that the difficulty can be overcome through familiar but drastic operating counter measures. A severe measure is tried sequentially starting with ones which have been successful in the past. If none of the measures produces a sufficient improvement, the tendency is to conclude that for the moment the situation is out of control, but the environmental disturbance is temporary and if the firm holds long, the problems will blow out. The firm turns from counter measures to retrenchment. The game plan is no longer to arrest the threat but to weather it. Typically non-essential activities such as management development are the first ones to suffer. Secondly future-oriented activities e.g. research and development and capital investment are decreased. Thirdly, expenses supporting

current operations are cut down. It is only if the losses continue to resist both operating counter measures and retrenchment that a reactive firm turns to strategic remedies. Meanwhile a great deal of time has been lost, substantial losses accumulated and extra cost incurred (Ansoff and McDonnel, 1990).

## **CHAPTER THREE: REASERCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research methodology that was used in the study. This included research design, data collection method, and research instruments and data analysis procedures.

### **3.2 Research Design**

The study was conducted through a case study design. The design was considered appropriate, as opposed to cross-sectional survey, because the study involved an in-depth investigation and understanding of macro environmental changes that have posed a challenge to British American Tobacco K Ltd and to establish the kind of responses BAT K Ltd adopted to cope with the macro-environmental changes. Case studies place more emphasis on full contextual analysis of fewer events or conditions and their interrelations. (Cooper and Schindler, 2007).

### **3.3 Data Collection**

Primary data was collected from specific individuals in the selected departments using an interview guide (see Appendix 2). The target interviewees were drawn from individuals considered to be playing a major role in formulating and implementing various strategies. They consisted of the General Manager, and all the Heads of functions. The researcher personally interviewed the interviewees so as to have an opportunity to clarify issues and gain any new relevant information for the success of the study.

### **3.4 Data Analysis**

Data collected was analysed using content analysis. This is a set of procedures for collecting and organizing non-structured information in to a standardised format that allows one to make



inferences about the research objective(s). The data was solicited from the respondents and its analysis involved comparing them with the theoretical approaches cited in the literature review in an attempt to get more revelation on the macro environmental challenges facing BAT K Ltd.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF FINDINGS**

### **4.1 Introduction**

This chapter covers data analysis and findings which are the result of personal interviews carried out with the respondents identified in chapter three, research methodology of this study. It is also the result of secondary data obtained from BAT K Ltd that includes corporate strategic plan, sessional papers and departmental plans. The collected data has been analysed and interpreted in line with aims of the study namely to what strategies BAT (K) Ltd has adopted to cope with the macro-environmental changes.

BAT K Ltd is Multinational Corporation with a turnover of Ksh. 19 Billion per annum. The company structure consists of departments headed by departmental heads. All departments work together through information sharing to ensure realization of the company's vision and mission. These departments cut across Marketing, Manufacturing, Human Resources, Corporate affairs, Legal, Supply chain, Security, Finance and Information Technology. Marketing is tasked with ensuring availability of the products to the consumers in the right price, place and also concerned in building the brands equity. Manufacturing is tasked with making products for the Kenya domestic market and export. Human resources responsibility is ensure attracting and retaining the best talent. Corporate affairs department is essential in ensuring engagement with all the stakeholders including Government, farmers and the local authorities. The Company's key performance measures focus on growth, productivity, responsibility and winning organization.

BAT's mission and objectives was articulated since the company's inception in 1895. Her vision is to achieve leadership of the global tobacco industry in order to create long-term shareholder value. The Government recognizes the role played by BAT K Ltd in socio economic growth of this country. BAT was recognized by KRA as being the 4th largest contributor of Government revenue. In 2009, BAT K Ltd contributed Ksh. 9 Billion.

## **4.2 Changes in BAT's External Environment**

Major changes in business environment that significantly affect the company's operations and capacity have awakened the company to review and align her strategies to the changing environment. Some of these changes offer opportunities and threats to the company. The company therefore must take advantage of or hedge against by capability in its internal strengths and minimizing its weaknesses. The Tobacco control Act of 2007, constant increases in Excise, municipal and city bylaws banning public place smoking, Increase in Duty not Paid and counterfeits have been the biggest challenges to BAT K Ltd. Prudent changes in business strategies are required for BAT K Ltd to enhance sustainability and remain the dominant player in the tobacco industry.

## **4.3 Environmental Challenges**

BAT K Ltd has faced challenges in political legal, unfair level competition and economic fields as a result of turbulence in her business environment. Cigarettes excise have been increased year on year. This has eroded consumer disposable income allocated to purchasing cigarettes. To mitigate against losses in volume and value, BAT has launched value for money and low segment brands such as Safari regular. BAT has also been engaging the Government stakeholders regarding punitive excise increase on her products. In some situations BAT has absorbed excise increases to avoid passing the excise increase to consumers hence price increase. When such occurred, BAT was forced to cut down on her expenses to maintain a profitable entity.

The Tobacco Control Act of 2007 was very punitive to the tobacco industry. Among other things it banned sale of cigarettes in less than 10 sticks, advertising and public place smoking. The Act empowered any health or security officer to arrest any one contravening the Act. Cigarette consumers in Kenya buy in form of sticks because of low disposable income. The Government has increased excise in her budgets year on year. Excise increases have ranged from 5% to 25%. As the legal cigarettes become more expensive driven by Governments increase in excise, consumers have opted for the cheap illegal product in the name of counterfeits or duty not paid cigarettes meant for export markets. City and Local councils have banned public place smoking

and display of tobacco product in the retailer's premises. This has led to fear in selling cigarettes by the retail and fear of smoking as the consumers fear arrest by the council policemen.

#### **4.4 Response to External Environmental Challenges**

Response to environmental changes involves strategically positioning a company in a turbulent environment and understanding the strategic position of the company through a deliberate gathering of information and intelligence about the external environment of the company. Strategic position of BAT K Ltd is to be the world's number one cigarette company. This objective would be realized by consolidation of market position through expansion of the network to new markets, development of an information communication and technology policy and capacity in all BAT's operating companies and distributors, deployment of the latest technology in her operations, training and effective management of knowledge and diversification. BAT will also need to keep on engaging all the stakeholders especially the Government in formulation and implementation of fiscal and economic policies. Engagement with the Government will also be crucial in passing new laws concerning manufacture and sale of cigarettes. Survival of any company depends on how well it predicts and responds to changes and their impact to its operating and business environment. The company should therefore identify the opportunities it can exploit and threats which it can mitigate against in its situational analysis.

In her response to The Tobacco control Act of 2007, BAT launched 10s pack. To address the issue of public place smoking, BAT engaged the hotels and restaurants association in creating a smoking zone in the restaurants. Since BAT direct communication to the consumers was illegalised by the Act, BAT uses retailers to communicate to the consumers using retail advocacy schemes. In response to constant excise increases, BAT has launched a low value brand to ensure consumers who downtrade have a product within her brand portfolio. BAT has also engaged stakeholders to ensure a fair excise increase on her brands.

Counterfeits and duty not paid product poses a great challenge to BAT. Since counterfeits and duty not paid cigarettes negatively affect both the Government and BAT, both parties have

partnered to ensure reduction of the illegal cigarettes. Duty not paid cigarette means that the Government is losing revenue. Counterfeits pose a health hazard to the general public since no quality standardization tests are done. Counterfeits also pose a great blow to innovation in the business sector. BAT in collaboration with the Government have been educating the law enforcement officers in identification of counterfeits and the impact the counterfeits have on the country's development. BAT also played a leading role in negotiating with the Government to have tax stamps in cigarettes meant for domestic consumption.

Municipal and city councils came up with public place smoking bans from 2006. The first was Nakuru followed by Mombasa and Nairobi. The councils designated smoking areas and banned smoking in all the other areas. The designated smoking zones were few and located in inconvenient places especially near dirty places. If BAT did not proactively engage the Government, such a ban would have seen a collapse of the tobacco industry. BAT engaged the Government to create more smoking zones and engaged with hotel and bar owners to create smoking zones for their consumers.

## **CHAPTER FIVE: SUMMARY, DISCUSSIONS AND RECOMMENDATIONS**

### **5.1 Summary, Discussions and Recommendations**

Understanding the impact of environmental changes in the organization could help practitioners in the field to ensure that tobacco firms develop rational strategies to effectively respond to these changes. Identifying and evaluating environmental opportunities and threats enable organizations to develop a clear mission to design strategies to achieve long-term objectives and develop policies to achieve annual objectives.

Strategic responses involve changes to the organizations strategic behaviour. Such responses may take any forms depending on the organizations capabilities and the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. (Ansoff and McDonnel, 1990).

Insightful diagnosis of a company's external and internal environment is a prerequisite for managers to succeed in crafting a strategy that is an excellent fit with the company's situation, is capable of building competitive advantage, and holds good prospect for boosting company performance (Thompson Jr, Strickland III, and Gamble, 2007). 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 system that interact with and depend on its specific environment while remaining ever aware of the potential influences of its general environment. Organizations must adapt their practices to the changing expectations of the society in which it operates. As values, customs, and tastes change so must the organizations. This applies to both their products and service offerings and their internal operating policies.

A wide range of environmental influences can affect organizations strategies and performances. It is particularly important in looking at the future impact of environmental factors which may be

different from their past impact. Understanding how political, Ecological, Social, Technological and Economic factors might impact on and drive change in general is important. The analysis provides a useful starting point to any analysis of the general environment surrounding an organization (Pearce and Robinson, 1997). It is a big challenge to keep an organization successful each time the organization changes, a well formulated strategy can however help to marshal and allocate an organizations resource in to a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Strategic responses to a changing competitive environment therefore entail substantial changes to organization long-term behaviour. These adaptations may be gradual or revolutionary depending on the nature and circumstances facing the organization. Many organizations pursue a combination of two or more strategies simultaneously but a combination strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the firm. Difficult decisions must be made and priorities established. Organizations have limited resources and as a result, they must choose among alternative strategies and avoid excessive indebtedness.

The objective of the study was to establish strategies BAT K Ltd has adopted to cope with the macro-environmental changes. On the respondent's profile, eleven top managers were interviewed. The findings confirmed that the company operates in an environment that is not static but characterized by many changes and challenges. The dynamism of the environment implies that companies have to constantly redesign their strategies in order to remain effective in their operations. Major environmental changes identified by respondents were political, legal and economic changes.

The Tobacco control Act of 2007 which banned sale of cigarettes in sticks, banned smoking in public places such as schools and hospitals, banned advertising and promotion of tobacco was the biggest law passed by Kenya parliament which if not proactively faced by BAT could have caused a collapse of the firms turnover. The next biggest challenge remains excise increases and duty not paid and counterfeit cigarettes.

The findings of this study revealed a number of responses that BAT K Ltd has used to counter environmental changes. In responding to the changes, the company has used a combination of strategies which includes proactive strategic planning, stakeholder engagement, and capacity building through global integrated synergies. BAT has responded to the environmental changes and challenges by implementing several measures. These measures include, pursuing cost leadership strategy, pursuing differentiation strategy of their products, adapting to new and improved technology, change in marketing strategies, change in organizational culture to a more customer oriented culture, restructuring of the organization to ensure there is efficiency and effectiveness in the way organization does its day to day business operations

## **5.2 Limitations of the Study**

This was a case study, as a result the research findings cannot be used to make generalization on the industry. In order to allow generalization in the industry, a cross section survey covering the whole industry can be undertaken. The time limit was too short for such a wide topic which should have been accorded more time so that it could have been more comprehensive. Notwithstanding the researcher's determination to undertake the study to completion within the given time frame, other constraints were encountered. For instance, some of the information sought was of a confidential nature, which the respondents either deliberately refused to divulge or did not have access to. Due to the busy nature of the top management, the researcher could not get detailed information from the heads of departments.



### **5.3 Suggestions for Further Research**

It is recommended that further studies to identify areas that BAT K Ltd has competencies to enable her achieve coveted competitive advantage in the industry she operates be undertaken. The current research was focussed on one firm, BAT K Ltd. The firm being the biggest in volume share in the tobacco industry in Kenya was a natural choice. Nevertheless, future studies could look at the strategic responses adopted by other tobacco firms in Kenya. Such firms include Mastermind Tobacco Company Ltd and any other cigarette importers. A study can also be done to find out how managers in the industry understand and approach strategic management issues as this could affect how they carryout strategic responses.

### **5.4 Implication on Policy and Practice**

Organizations operate in a dynamic environment. This implies that strategic responses well developed and appropriately adopted are powerful tools for acquiring and sustaining a competitive advantage. In view of the above, I suggest that BAT K Ltd should engage more proactively her stakeholders especially the Government in formulation and implementation of laws regulating the manufacture and marketing of tobacco products. BAT K Ltd should also launch in the Kenyan market less harmful tobacco products as in other markets. Those less harmful tobacco products are snus also known as smokeless tobacco.

The tobacco control Act of 2007 offers challenges as well as opportunities for BAT K Ltd. This presented opportunity for a well regulated tobacco industry providing clear laws for all the players in the tobacco industry. A big challenge posed by the tobacco control Act to the industry remains ban on stick sales. The tobacco industry should continue engaging the government to review that section. Since the law allows minimum packets of ten sticks, then BAT K Ltd should consider manufacturing other brands in the ten's pack alongside Dunhill tens.

Factors that influence BAT's response to changes in the macroenvironment are preferences of the General Manager and pressure of the environmental dynamics such as those exerted by regional

countries and trading blocs. Shareholders demands, Government regulations, policies and tobacco pressure groups are also factors that influence BAT's response to external environment.

Key assumptions made for a company to realize her objectives include; sustained economic growth, political stability, good tobacco leaf yields, good corporate governance and stability in management of all departments. Continued goodwill from the major stakeholder which is the Government is also very necessary in the success of BAT K Ltd.

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APPENDICES

APPENDIX I: AUTHORITY TO COLLECT DATA



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAM - LOWER KABETE CAMPUS**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE.....

**TO WHOM IT MAY CONCERN**

**Patrick Masila Munuve**

The bearer of this letter .....

Registration No: **D61/8292/2006** .....

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

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request

Thank you.

## **APPENDIX II: INTERVIEW GUIDE**

**Please answer the following questions;**

### **A. Company Data**

- 1) What is the size of your company?
- 2) How many employees;
  - i) Permanent?
  - ii) Temporary?
- 3) How long have you worked in the company

### **B. General issues**

- 4) Has the structure changed within the last 10 years?  
If yes, what are the major changes that have taken place in the above?
- 5) What mechanism has BAT K Ltd put in place to detect challenges in the environment?
- 6) What is the future management plan concerning the challenges not responded to?
- 7) How do you assess the response of the company now?
- 8) How aggressive is the company's behaviour in response to the challenges?
- 9) What major areas have improved in the company?
- 10) Does the company have standard performance measures for each department?

## **C. Macro environment**

### **Political environment**

11) What are the major changes in legal/political environment that have affected BAT K Ltd in the last 10 years?

12) What challenges is BAT K Ltd facing as a result of the changes above?

13) How has the company responded to the above changes?

### **Economic environment**

14) What are the major changes in economic environment that have affected BAT K Ltd in the last 10 years?

15) What challenges is BAT K Ltd facing as a result of the changes above?

16) How has the company responded to the above changes?

### **Socio-cultural environment**

17) What are the major changes in Socio-cultural environment that have affected BAT K Ltd in the last 10 years?

18) What challenges is BAT K Ltd facing as a result of the changes above?

19) How has the company responded to the above changes?

### **Technological environment**

20) What are the major changes in Technological environment that have affected BAT K Ltd in the last 10 years?

21) What challenges is BAT K Ltd facing as a result of the changes above?

22) How has the company responded to the above changes?

23) How can you rate the company in terms of modernization? Is it at par with the market rate?



## Competition

- What are the changes that have taken place in the competitive business environment that have affected BAT K Ltd in the last 10 years?
- What challenges is BAT K Ltd facing as a result of the changes above?
- How has the company responded to the above changes?

## Customers

- What are the changes that have occurred in the bargaining power of the buyers and how have they affected BAT K Ltd in the last 10 years?
- What challenges is BAT K Ltd facing as a result of the changes above?
- How has the company responded to the above changes?

## Suppliers

- What are the changes that have occurred in the bargaining power of the suppliers and how have they affected BAT K Ltd in the last 10 years?
- What challenges is BAT K Ltd facing as a result of the changes above?
- How has the company responded to the above changes?

## Substitutes

- Has there been any changes involving substitutes to BAT's products?
- What are some of the changes?
- What challenges is BAT K Ltd facing as a result of the changes above?
- How has the company responded to the above changes?

### **New entrants**

36) Have there been new entrants in to the market for the last 10 years? If so, what are some of the new entrants and what changes have they brought about affecting BAT K Ltd?

37) What challenges is BAT K Ltd facing as a result of the changes above?

38) How has the company responded to the above changes?

## **E. Operational environment**

### **Shareholders**

39) Has there been any changes involving shareholders? If so, what are some of these changes?

40) What challenges is BAT K Ltd facing as a result of the changes above?

41) How has the company responded to the above changes?

### **Competitors**

42) Has there been any changes involving competitors? If so, what are some of these changes?

43) What challenges is BAT K Ltd facing as a result of the changes above?

44) How has the company responded to the above changes?

### **Customers**

45) Has there been any changes involving customers? If so, what are some of these changes?

46) What challenges is BAT K Ltd facing as a result of the changes above?

47) How has the company responded to the above changes?

## **Employees**

48) Has there been any changes involving employees? If so, what are some of these changes?

49) What challenges is BAT K Ltd facing as a result of the changes above?

50) How has the company responded to the above changes?

## **Suppliers**

51) Has there been any changes involving suppliers? If so, what are some of these changes?

52) What challenges is BAT K Ltd facing as a result of the changes above?

53) How has the company responded to the above changes?

## **Creditors**

54) Has there been any changes involving creditors? If so, what are some of these changes?

55) What challenges is BAT K Ltd facing as a result of the changes above?

56) How has the company responded to the above changes?

57) What other changes not mentioned above has affected BAT K Ltd in the last 10 years?

58) What challenges is BAT K Ltd facing as a result of the changes above?

59) How has the company responded to the above changes?

60) Have the responses produced desired results?

**Thank you for your time.**