

**STRATEGY DEVELOPMENT BY COMMERCIAL ELECTRIC  
POWER PRODUCERS AND DISTRIBUTORS IN KENYA**

**By**

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Requirements for the Award of Master of Business Administration  
(MBA), School of Business, University of Nairobi**

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## Declaration

### STUDENTS DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

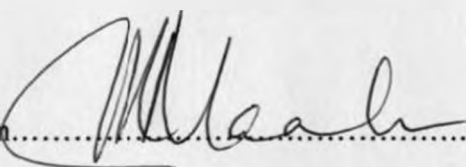
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### SUPERVISOR'S DECLARATION

This proposal has been submitted for examination with my approval as university supervisor

Sign..........

Date.....15/11/2010.....

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## Dedication

I dedicate this project to my friends and family.

## **Acknowledgement**

I wish to acknowledge the invaluable support of my dear husband Martin and my son Ryan who endured many days of my absence as I tried to complete this assignment. To my parents, brothers and sisters, your words of encouragement moved mountains, and to my friends who contributed in various ways, I love you all.

I have a special mention for my supervisor, Mr. Jackson Maalu for his patience and advice throughout the project. I am greatly indebted to him for his guidance, support and the timely comments to this research work. To the teaching fraternity, your words of encouragement and pieces of advice were very crucial.

I have a special appreciation to God for life and the good health he gave me throughout this assignment. Though him all things are possible and that's why I managed to successfully finish this project.

## **Abstract**

The aim of this research study was to establish the modes of strategy development by commercial electric power producers and distributors in Kenya and also find out the factors influencing strategy development in these organizations.

Population of the study consisted of all the 7 commercial electric power producers in Kenya plus one electric power distributor (KPLC). Both qualitative and secondary data were used for the study. Primary data was collected through a self administered questionnaire (see appendix II) that had been constructed using both open and closed type of questions. Secondary data was collected through reviewing the strategic plans, policy documents and the annual financial reports. The results were presented using frequency tables where necessary. The data analysis method was qualitative and quantitative in nature and descriptive statistics was used where frequency and percentages were applied.

Strategy development processes employed by commercial electric power producers and distributors have for the most part been a combination of planning, design and emergence. As commercially oriented organizations, the strategic objectives are expected to be pegged to profit objectives. The government has majority shareholding at KPLC and Kengen and so the decisions are expected to be highly influenced by the government. GDC is wholly controlled by the government as the owner whereas independent power producer are mainly controlled by their parent companies.

The study found out that the large firms had well documented strategic plans unlike in the small firms where planning was mainly in form of budgets and prior allocation of resources. Annual budgeting itself was an exercise of percentage increments to account for actual and anticipated inflation and a determination of the acceptability of the estimates. High level of formality was involved in strategy development at KPLC and Kengen which were also found to be larger in size than the other firms. The study also concluded that strategies are mainly developed by the top management and the board of directors then passed down to the other employees for implementation. This was the case for all the organizations in the population whether small or large.

The study recommends that commercial electric power producers and distributors should establish a strategic planning department so that issues of strategy development can be well addressed. All the firms whether small or large, profit oriented or not should wholly embrace the concept of strategy development in order to gain a sustainable competitive advantage and improvement in performance. Strategy development process should also take an all participative approach so that all stakeholders own up the developed strategies and this will greatly reduce resistance to change during strategy implementation.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Design of successful business strategies is based on the conviction that a firm is able to anticipate future business conditions and that it will be able to improve its performance despite the uncertainty and the dynamic nature of the future expectations. Strategy development is vital in organizations because it can lead to the attainment of a competitive advantage and increased performance. Organizations have been necessitated to change and align themselves to the turbulent environment by developing new strategies in order to survive and remain competitive in the market. Ansoff and McDonnell (1990) defined a strategy as a set of decision making rules for guiding organization behavior. A corporate strategy is long-term in nature and it helps the organization work towards the realization of its vision.

Rapid environmental changes, globalization and changing customer demands have become standard backdrop for organizations. In order to survive and compete effectively organizations must constantly respond to rapid emerging environmental changes by reducing costs, acquiring modern equipments, restructuring programs while enhancing quality and differentiating their products and services (Chang and Huang 2005). These are some of the strategies that organizations use but the process of developing good strategies is a challenge to most of the organizations. Electric power producers and distributors are not exempted as they are faced by political forces, constrained resources,

and variable economic conditions among other factors that make developing of new strategies inevitable to cope with the turbulent environment. The process of strategy development is context related and different organizations develop strategies in a unique way depending on their size, complexity among the other organizational factors.

### **1.1.1 Concept of Strategy and Strategic Management Process**

The dynamism of the environment poses challenges to organizations which as open systems have to respond through appropriate strategies. Johnson and Scholes (1999) noted that changes in environment give rise to opportunities for the organization and at the same time exert threats to it. An organization has to carry out a SWOT (strengths, weaknesses, opportunities and threats) analysis so that it can identify the strengths and opportunities it has to counter the weaknesses and threats posed to it. Porter (1996) argues that strategy is about competitive positioning, differentiating the organization in the eyes of the customer and adding value through a mix of activities different from those applied by the competitors. Porter (1980) contends that any moves that would significantly improve a firms position does threaten competitor hence the need to predict and influence retaliation.

Strategic management is the process of formulation, implementation and evaluation of strategies. It is an ongoing process of ensuring a competitive superior fit between the organization and its environment (Johnson & Scholes, 2002). It is also a set of decisions and actions that result in the formulation and implementation of plans designed to

achieve a company's objectives. Strategy formulation is designed to guide executives in defining the business their company is in, its objectives and how to accomplish those objectives effectively. It starts with the definition of the company's vision, mission, objectives and goals. Ansoff and McDonnell (1990) regard strategy formulation as a formal and disciplined process leading to a well defined organization-wide effort aimed at complete specification of corporate, business and functional strategies.

Strategy implementation entails putting the steps in strategy formulation into action plans. It involves operationalization which is the development of the action plans and institutionalization which entails making sure that the strategy is internally acceptable within the organization. It is easy to implement a strategy which has been owned up by stakeholders. Strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises and also making the necessary adjustments. Strategic control can be characterized as a form "Steering control" where some of the controls include premise controls, strategic surveillance, special alert controls and implementation control (Pearce and Robinson, 2005).

### **1.1.2 Strategy Development**

Strategy development is the process by which strategies come about in organizations. Organizations have been practicing strategic management practices since the ancient times either in a formal or informal way. In the earlier days, models of strategy development were mainly prescriptive in nature and they included the entrepreneurial and the adaptive modes hence the need to develop deductive modes (Mintzberg, 1998). The

modes that followed later mainly focused on adaptability to change, strategic thinking and organizational learning. These aspects are prevalent in managing the organizations today due to the dynamic nature of the environment.

Mintzberg and Lampel (1999), Burns (2000) identified various schools of thoughts that fall in to two types, prescriptive and descriptive. Under prescriptive ideology, strategy formulation is seen as a formal, rational and pre-planned process in which strategic changes flows from the implementation of predetermined strategies. Descriptive ideology sees strategy as a less emergent and a less analytical process where change is not an outcome of strategy rather the process by which it is created. D'Aveni (1994) asserts that since the 1980s confidence in the top management's ability to develop an effective strategy using a purely analytical approach has been largely shattered. This has been replaced by the concepts of grassroots strategy development, the learning organization, competency based strategy and negotiation. All these later concepts recognize a wide range of players including employees, customers and even competitors who need to play a key role in strategy development process.

### **1.1.3 The Energy Sector in Kenya**

Energy is a fundamental prerequisite for the achievement of any countries development goals. Without access to reliable and affordable energy services, sustainable social and economic development cannot occur. The way in which energy services are produced and consumed affects the key pillars of sustainable development namely the economic, social and environmental aspects. Demand for electricity exceeds generation capacity during

peak periods. The supply problem is particularly acute during droughts when dam reservoirs are low or when some of the hydroelectric generating plants are out of service. Harsh climatic conditions have necessitated the development of additional sources of energy other than the hydro sources which seem to be unreliable. There is considerable loss of power during transmission and distribution, partly due to outright theft of equipment. The presence of several institutions in the power sector with overlapping responsibilities also creates confusion and waste. In the petroleum sub sector, the main constraint is high prices arising from the oligopolistic nature of the sector (<http://www.kplc.co.ke/>)

The Government has initiated comprehensive reforms in the energy sector to accelerate electrification and ensure that people have access to electricity at an affordable cost. These include coverage, unbundling, privatization, emergence of the independent power producers and the KPLC restructuring programs. In 1997, KPLC was split into two parts: a new entity, the Kenya Power Company, now known as KenGen, took over all publicly owned power plants; and KPLC retained transmission and distribution. KenGen was 30 per cent privatized by a listing on the Nairobi Stock Exchange in the third quarter of 2005. Kenya currently has an installed capacity of 1147 MW. KenGen produces about 80 per cent of the power consumed in Kenya, mostly from hydro, which makes up about 75 per cent of its capacity. Most of Kenya's electric power is from the River Tana generated through the Seven Forks project in Eastern Province. IPPs were set up from the

mid-1990s onwards and they contribute to approximately 20 per cent of generation (ERC Annual Report, 2008).

Other reforms include the establishment of the Energy Regulatory commission (ERC) which is a regulatory body in this sector. ERC was established as an autonomous independent energy sector regulator with powers to formulate procedures, issue licenses, set review and adjust electricity tariffs among other duties. It protects the interests of all stakeholders involved in this sector. Rural Electrification Authority is mandated to develop and update the rural electrification master plan, implement the program and also promote the use of renewable energy sources. It was also established to spearhead and fast-track electricity access to rural areas. A Geothermal Development Company (GDC) was formed in 2009 for the purpose of exploiting the hugely untapped geothermal energy potential. Olkaria is one of the geothermal power stations that produce electric power though the source is still under-utilized. The Kenya Electricity Transmission Company (Ketraco) was formed in 2009 to develop new transmission and distributions lines. It is a wholly government owned corporation which is mandated to install transmission lines to some specified areas. All these reforms are directed towards improving the energy sector and also ensuring that majority of the Kenyan people have access to the key energy resource (<http://www.erc.go.ke/>).

#### **1.1.4 Electric Power Producers and Distributors in Kenya**

The power Industry is one of the sub-sectors in the energy sector over which the Ministry of Energy exercises oversight on behalf of the Government of Kenya. The major players



in this sub-sector with reference to generation are the Kenya Electricity Generating Company (KenGen) which accounts for close to eighty per cent of generation, the balance being provided by the five Independent Power Producers (IPPs), namely Ibrafrica Power (EA) Ltd, Tsavo Power Company Ltd, OrPower 4 Inc, Mumias Sugar Company Ltd, Rabai Power Ltd and Geothermal development company limited. Tsavo Power owns the 74 MW Kipevu 2 plant while the other plants at Kipevu are owned by KenGen. The main members of the Tsavo consortium are Globelec who owns 30 per cent, Industrial Promotion Services Limited owns 49.9 per cent and the World Bank holds 5 per cent. Ibrafrica owns the Nairobi South plant, uses diesel and has a capacity of 113 MW. Union Fenosa of Spain owns 80 per cent of Ibrafrica, while Kenya Power and Lighting Company's Staff Pension Fund own the remaining 20 per cent. (<http://www.erc.go.ke/>). GDC is wholly owned by the by the government.

Other operators in the sub-sector include James Finlay, Sotik Tea Company, Sotik Highlands Tea, Oserian Development Company, Pan African Paper Mills, Unilever Tea Kenya Ltd and Tiomin, who are licensed to generate electrical energy only for own use. KPLC purchases power in bulk from KenGen and the IPPs bilateral contracts and then distribute to the final consumers. Independent and emergency power producers charge twice of what Kengen charges due to high costs of production. Although Kenya has a capacity to generate 7,000 MW of geothermal power, current output stands at 167 MW. Kengen's output is 115 MW, OrPower4 generates 48 MW whereas Oserian development company generates 4 MW. According to state owned geothermal development company

challenges affecting geothermal development are logistical and infrastructure hurdles besides the long gestation periods (<http://www.erc.go.ke/>).

## **1.2 Statement of the problem**

Many organizations assume that strategy will be automatically developed by the top management and passed down to the other staff for implementation. This is not the case as there is a continuous need for a participative approach to strategy development. There is growing cognizance that in highly dynamic environments, traditional approaches to strategy development often do not lead to intended results and the organizations must move towards a more dynamic concept as the underlying conditions change before formulated strategies can be fully implemented (Feurer and Chaharbaghi, 1994). According to Malusi (2006) traditional strategy development models are viewed as not producing strategies that can deal with complexity, uncertainty and rapid changes in the external environment. Managers are faced with a challenge of countering threats from competitors, government regulation policies and other environmental diversities hence the need to develop appropriate strategies. The way strategies are developed is therefore a key concern as it contributes to the attainment of sustainable competitive advantage, increased performance and also helps the organizations to survive in a turbulent environment.

Managers approach strategy development in organizations differently depending on the environmental and organizational factors, therefore, strategy development is context related (Nyamweya, 2004). Despite the significance contribution by electric power

producers and distributors to the Kenyan economy, they are faced by many challenges and constraints due to the environment in which they operate. It is highly capital intensive to establish an electric power plant and therefore strategies in these companies must be developed carefully because the switching costs are too high. The government often intervenes the power production and distribution through introduction of new policies because this is a significant contributor to the Kenyan economy. Sometimes the government imposes strategies to organizations through restrictions and constraining resources and this makes the strategies to be developed in particular way. Looking at the performance of these companies, there is a great need to establish the nature of strategy development that makes them successful in a turbulent environment.

Several studies have been carried out previously on strategy development by some of the companies in Kenya. (Malusi, 2006; Nyamweya, 2004; Kangoro, 1998; Muriuki, 2005; Okiro, 2006) concluded that there is adequate evidence of formal strategic planning and strategy development among the Kenyan firms. Okiro (2006) in his study of strategy development processes and factors influencing them at Kenya Pipeline Company limited observed that the government played a key role in shaping the kind of strategies developed in the company. However a search of the available literature did not find any study of strategy development by commercial electric power producers and distributors in Kenya. This research therefore sought to fill this gap by providing answers to the following questions: What modes of strategy development are used by commercial

electric power producers and distributors in Kenya? What factors influence strategy development by these firms?

### **1.3 Objectives of the study**

i) To determine the modes of strategy development by commercial electric power producers and distributors in Kenya.

ii) To establish factors influencing strategy development by commercial electric power producers and distributors in Kenya.

### **1.4 Value of the study**

This research will make a contribution to the academic literature in the field of strategy development by organizations in Kenya. The literature will therefore stimulate further research to develop a better understanding of strategy development best practice applied by Kenyan firms.

To the regulatory body ERC and the government at large, the findings of this study will provide some insights on the future strategic plans for electric power producers and distributors hence being in a position to make timely and appropriate interventions to mitigate the risks. It will also help them in making policies which are relevant to the subsector.

The study will be of great value to the business community, strategic management executives and industry players who will have available information on strategy

development within the ever complex and dynamic business environment especially the electric power producers and distributors.

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## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents a review of related literature on the subject under study presented by various researchers, scholars, analyst and authors. The research has drawn materials from several sources which are closely related to the theme and the objectives of the study. The specific areas covered in this chapter are the various aspects of strategy development which include strategic lenses, patterns of strategy development, strategy development as a managerial intent, strategy development as an outcome of organizational processes, tools of strategy development and the factors influencing the strategy development process.

### **2.2 Strategy development**

Strategy development is an integral part of strategic management. According to Pearce and Robinson (2004), strategy formulation is designed to guide executives in defining the business their company is in, the aim to seek and the means it will use to accomplish these aims. Pearce and Robinson (2003) assert that modern executives must respond to the challenges posed by the firm's immediate and remote external environment. The way managers approach their strategy development in organizations differ and is determined by organizational factors like size, organizational complexity, and formality. A key concern in this process is to stay focused on the mission and vision of the organization to ensure that these are relevant to the existing external environmental situation.

Malusi (2006) in a study of strategy development and its challenges in Kenyan Public corporations found out that public sector organizations have embraced strategy development as a result of demands for greater efficiency in utilization of resources and provision of goods and services from the general public and donor agencies like the World Bank. He further observed that politics play a key role in strategy development within the public sector leading to the implementation of imposed strategies. Most of these corporations were required to present strategic plans first in order to get funding either from the government or other agencies like the World Bank. The following sections describe how strategies are observed to develop in organizations over time.

### **2.2.1 Patterns of strategy development**

Strategies are developed differently in organizations depending on the unique characteristics of the firm. Johnsons and Scholes (2001) argue that as much as strategic changes may take different forms in organizations, they are better described in terms of continuity as opposed to one off major changes. According to Romanelli and Tushman, (1994) transformational change entailing a fundamental alteration in the strategic direction may occur in organizations although it is uncommon. Such a change pattern is called punctuated equilibrium. Organizations sometimes fail to exhibit this kind of pattern since they may change incrementally or even take a longer time before changing the existing strategy. Change may also not be in a particular direction and so it will negate the punctuated equilibrium pattern. Incremental change is seen as the adaptive mode of strategy development in which organizations adapt to the dynamic environment.

The proponents of this model argue that in order to survive, organizations must develop the ability to change themselves continuously in a fundamental manner and they have to continuously reinvent themselves (Brown and Weiner, 1985). The underlying rationale for the continuous transformation model is that the environment is changing and will continue to do so rapidly, continuously and unpredictably (Burns, 2002).

An organization can develop strategies but end up either not implementing them or applying strategies that were not planned for. Intended strategy is the desired strategic direction deliberately formulated by managers whereas the realized strategy is the one actually being followed. Unrealized Strategy refers to the planned strategy not being followed in the organization whereas the emergent strategy is the long term direction of an organization which develops over time (Johnsons and Scholes, 2002). There are differing theories on the composition and practice of strategy development process that have arisen because of the breadth and complexity of the subject and can be summarized as representing two main approaches which are prescriptive and emergent approaches.

Prescriptive approach stipulates that the main area of strategic management and planning is a rational deliberate and linear process. The objectives are defined in advance and the main elements developed before the strategy begins (Mintzberg and Quinn, 1996). The prescriptive approach is beneficial in that, it provides a structured means of analysis and thinking about complex strategic problems. It also acts as a means of control and review of performance against the already set objectives. The proponents of the emergent approach argue that strategy emerges, adapts and evolves over time. Recent



developments in strategy development have de-emphasized planning and stressed the importance of learning and adaptability for example, systems thinking (Senge, 1990). According to Mintzberg (1994), both schools of thought have a contribution to make and are not mutually exclusive. The planning process cannot be totally ignored and at the same time strategies emerge and get implemented without planning for them.

### **2.2.2 Strategy development as a managerial intention**

Various views are used to explain the fact that, strategy comes about in organizations through deliberate managerial intent. These views include the planning view, command view and the logical incrementalism concept. Proponents of the planning view argue that a highly systemized form of planning is the most rational approach to strategy development. It involves defining the objective and the strategic direction in advance, and also planning for resources to implement the plan. The command view sees strategy as the outcome of influence of an individual or a small group of people but not necessarily through formal plans. Autocratic and charismatic leaders are good examples in explaining this view.

Quinn (1980) discusses logical incrementalism and argues that strategic management is best viewed as using a continuous evolving and consensus building process. Managers have a view of where they want the organization to be and so they try to move towards this position in an evolutionary way. Logical incrementalism can be thought as a deliberate development of strategy by learning through doing. Continual testing and

gradual strategy implementation provides improved quality of information for decision making and enables the better sequencing of the elements of major decisions.

### **2.2.3 Strategy development as an outcome of organizational process**

Culture refers to the beliefs that shape the decisions undertaken in an organization. Johnsons and Scholes (2002) argues that organizational culture is the deeper level of basic assumptions and beliefs that are shared by members of an organization; that operate unconsciously and define in a basic taken for granted fashion an organizational view of itself and its environment. Aosa (1992) stated that it is important that the culture of an organization be compatible with the strategy being implemented. According to Quinn (1988), the formal analytical approach tends to focus on unduly measurable quantitative factors and under emphasize the vital qualitative organizational factors which so often determine strategic success in one situation versus the other. Organizational paradigms may comprise competences that provide basis of competitive advantage but also work against the strategy development in an organization. Cultural beliefs affect the kind of strategies developed by organizations.

Organizational politics must be viewed as an inevitable dimension of decision making that strategic management must accommodate (Pearce and Robinson, 1997). Such influences are related to their expectations, perceptions, priorities, information that in turn affect the identification of issues, organizational objectives and selected strategies (Buchanan and Boddy, 1992). A strategy is formulated politically through building credibility, broadening support, managing coalitions, bargaining and negotiation.

Managers in organizations may feel restricted in term of the strategies to implement due to restricted resources, political intervention and this leads to the implementation of imposed strategies. In some organizations, managers see the scope of strategic choices as restricted by environmental constraints and thus may not have the capability to develop strategies to overcome such constraints (Johnsons and Scholes, 2001). Mintzberg (1985) asserts that the external environment dictates patterns in action, either through imposition or through implicitly pre-empting or bounding organizational choice.

#### **2.2.4 Formality in Strategic Management**

Small organizations typically exhibit very basic planning systems compared to larger firms in the same industry that tend to use more complex strategic management systems. Pearce and Robinson (2002) define formality as the degree to which membership, responsibilities, authority and discretion in decision making are specified. The key aspects of formality include; the development of strategies by the top management which are later communicated to the other parts of the organization, detailed degree of analysis, extensive documentation and more time usage in developing the strategies. Pearce and Robinson (1985) measured formality by looking at whether firms had written year plans with objectives, strategies and other resource needs.

Kitangita (2009) in his study of strategy development and implementation at Kenyatta International Conference center found out that bottom up approach was mainly used in developing strategies in this organization. He further observed that strategies were communicated well to the lower level employees after they had been developed and a

proactive approach was used to develop strategies. Munyoki (2009) in his study of strategy development at Bamburi cement limited found out that the process is highly formalized, logical and proactive in nature.

### **2.2.5 Strategy lenses**

Johnsons and Scholes (2002) in explaining strategy development in organizations observed that most people make sense of complex situations (strategy development) in more than one way. They observed that the development and management of a strategy can be viewed through three lenses namely the design, experience and ideas lenses.

The design lens view strategy development as a logical, analytical and planned process in which economic forces and constraints on the organization are weighed carefully to establish a clear strategic direction and carefully plan for the strategy implementation. This lens views strategy development as the deliberate positioning of the organization through a rational, analytic, structure and directive process. Strategy development is seen as a process of systematic thinking and reasoning whereby although the range of influences are many, they can be understood through careful analysis such as identify those which are most likely to influence an organizations performance.

Strategy is hence the result of decisions made about the positioning and repositioning of the organization in terms of strength in relation to its market and the forces affecting its wider environment. The decisions on what the strategy should be in terms of its content come first and are cascaded down through the organization to those who make things

happen. This view also assumes that there are tools and techniques which enable managers to understand the nature and impact of the environment the organization faces, the particular competences of that organization, the influence of powers within and around the organization, the organization culture and its link to strategy and the strategic choices available to the organization (Johnson & Scholes, 2002) . According to Mintzberg (1994) the design lens has some weaknesses including the invalidity of the assumption that after analysis and strategy specification, there will be no alterations based on changing circumstances. It separates strategy implementation from strategy development yet they are supposed to be interconnected. Positively, it provides a good basis for managing complexity in a structured and logical way.

Under the experience lens, future strategies of organizations are based on the adaptation of the past strategies through cultural and political processes which influence the experience of managers and others in the organization. Experience lens argues that since strategy is about the long-term direction of an organization, it is understandable that it might be thought of in terms of major decisions about the future taken at a point in time at the top of the organization and resulting in one off major changes (Johnson & Scholes, 2002). Once an organization has adopted a particular strategy, it tends to develop from and within that strategy rather than fundamentally changing direction. This lens considers strategy as an outcome of individual and collective experience of and the taken for granted assumptions most obviously represented by cultural difference

For the ideas lens, strategy is seen as emergent from within and around the organization to changing and diverse environment that fosters innovation. Ideas compete for adoption within and around the organizations and the top management act as coaches and creators of context. Ideas lens view strategy as emergent of order and innovation from the variety and diversity, which exists in and around organizations. New ideas and innovation may come from anywhere in an organization or indeed from stimuli in the world around it (Johnson & Scholes, 2002). The view holds that people interpret issues in different ways according to their experience and may come up with different ideas based on personal experience. This probably explains why some organizations are more innovative than others and why some cope better with changing environments than others do. Creative ideas and innovation form less bureaucratic and top down systems.

### **2.3 Factors influencing strategy development**

Organizations are environment dependent and environment serving (Ansoff and McDonell, 1990). They obtain their inputs like the raw materials from the environment, process through their processing systems and finally give back the output to the environment. Pearce and Robinson (2003) observed that the external component should have strategic fit with the internal environment. Child and Smith (1989) noted that sector practices and norms combine to determine the path a firm must take for its future success.

Okiro (2006) in his study of strategy development processes and factors influencing them at Kenya Pipeline Company limited observed that factors like availability of resources, political intervention, organizational politics and culture played a key role in the

development of strategies. There are various issues that are associated with the process of strategy development, and they tend to differ depending on the organization's context.

Government influence through regulations, taxation policies, foreign trade regulations, social welfare policies and expectations play a key role in an organization's choice of strategy (Johnson & Scholes, 2002). Mintzberg (1985) argues that the external environment dictates patterns of action either through imposition or through implicitly pre-empting or bounding organizational choice. Pearce and Robinson (2007) observed that political factors define the legal and regulatory parameters within which firms must operate.

Parent companies also impose strategies to their subsidiaries through restrictions and constraining of financial resources. Choudhry and Samsud (2001) observed that institutional ownership affects the corporate productivity both directly and indirectly through interplay with a set of strategic choices. Inadequacy of resources may hinder the development of a good strategy or limit the organization to a particular choice of strategy.

Resistance to change by various stakeholders may affect strategy development especially when people to actually implement the strategy reject it. To overcome the resistance, education and effective communication which involves the explanation of the reasons for and the means of change can play a key role (Johnson and Scholes, 2002).

Stake-holders expectations and interests can affect strategy development either positively or negatively. Crafting of strategies is affected by those who have power in and around

the organization. Organizational politics play a key role in strategy development because it is out of the bargaining and negotiations outcome that strategies are developed.

A strategic leader may also affect the process of developing strategies in an organization. Ansoff and McDonell (1990) notes that a strategic leader brings in to play the critical managerial issue of how to achieve the targeted results in light of the organization's situation and prospects. Leadership is the ability to inspire people to make a total, willing and voluntary commitment to accomplishing organizational goals (Goetsch and Davis, 2000). Leaders must be able to overcome resistance to change, consolidate the needs of various constituency groups and lead them towards the achievement of the organizations goals.

Cost of production is also a draw back when it comes to strategy development. Stock holding costs are way too high and organizations are constrained in the kind of choices they make. Power generators for example are required to hold huge amounts fuel stock to ensure continuous generation of power and this is costly to them.

#### **2.4 Tools used in strategy development**

Scenario planning and forecasting helps in dealing with uncertain factors by providing a mechanism for envisioning a wide range of future scenario, examine possible impacts, develop a common view to change and prepare. Scenarios sometimes are best used not as a basis for strategy but as a way to improve how managers do it (Mintzberg et al, 1998). Road mapping is mainly used to plan new product development, for example product line



road map. This tool can be used to attain sustainable competitive advantage by developing highly competitive and unique products in the market.

Environmental scanning involves a critical analysis of the environment in an attempt to identify the aspects of environmental dynamism and come up with strategies to counter the changes. It involves careful scrutiny of both internal and external environments. Capital planning and budgeting entails planning and allocating financial resources optimally to a particular project or venture. These planning techniques help in the development of a strategy specifically the financial plan. Portfolio analysis also helps in strategy development because various proposals are analyzed and evaluated so as to make a choice.

Game theory modeling is the analysis of rational behavior used in development of competitive strategies by addressing such microeconomic issues as coordination, cooperation, reputation, exploitation, signaling and strategic control of information. Stakeholder analysis involves analyzing the interests of managers, owners, employees, customers, suppliers, government agencies, unions, competitors among the other stakeholders. This analysis would help in addressing strategic issues which are valuable to the stakeholders and hence acquire a competitive edge.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter discusses the methodology that was used in gathering data, analyzing it and reporting the results. Here the researcher aimed at explaining the methods and tools used to collect and analyze data to get proper and maximum information related to the subject under study.

### **3.2 Research Design**

The research was a descriptive study carried out to determine the modes of strategy development by commercial electric power producers and distributors in Kenya and also to establish the factors influencing strategy development among the firms. The research design for collecting data was a survey carried out on the seven commercial power producers and one electric power distributor in Kenya. A survey is a situation where data is collected from several units of the population of interest. This research design was useful in describing the characteristics of the firms and determining the frequency of key attributes of the study.

### **3.3 Population**

The population of the study consisted of all the eight commercial electric power producers and distributors that operate in Kenya. They include; Kengen, KPLC, Iberafrika power EA Ltd, Tsavo Power company limited, Rabai company limited,

Mumias sugar, Orpower4 Inc and geothermal development company limited. Commercial electric power producers, referred to the companies which are licensed to generate commercial electric power. KPLC is the only licensed distributor of electric power in Kenya and therefore it was part of the population that was studied.

### **3.4 Data Collection.**

Both primary and secondary data was used. For the primary data, a drop and pick questionnaire (Appendix II) was used and it was given to the key decision makers who are involved in strategy development. The target respondents were the general managers, managing directors or other company representatives directly involved in strategy development depending on the organization structure of the company. The questionnaire was constructed using open ended and close ended type of questions. The structured questions were useful in conserving time and facilitating easier analysis as they are in an immediate usable form; while the unstructured questions encouraged the respondent to give an in-depth and felt response without feeling held back in revealing any information. For secondary data, a desk review was carried out on the records which included annual financial reports, strategic plans, policy documents, manuals and other planning related materials.

The researcher made sure that the research instrument was valid enough to enhance its relevance to the study. Validity is the degree to which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument

represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) observed that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the researcher's supervisor and lecturers. This facilitated the necessary revisions and modifications of the research instrument thereby enhancing its validity.

### **3.5 Data analysis**

The questionnaire was edited for compliance, consistency and coherence. Quantitative data obtained was analyzed using descriptive statistics where percentages and frequencies were applied. Cooper and Schindler (2003) noted that the use of percentages is important for two reasons; first they simplify data by reducing all the numbers to range between 0 and 100; secondly they translate the data in to standard form with a base of 100 for relative comparisons. The qualitative data collected was analyzed through content analysis. According to Kothari (1990) content analysis involves analyzing the contents of the documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can either be written or printed. Nachmias and Nachmias (1996) concur that content analysis is a technique of making inferences by systematically and objectively identifying specific characteristics of messages and then relating the themes. This approach has been previously used by Muriuki, (2005); Ogiro, (2006) and Malusi, (2006).

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents data analysis and interpretations of the findings which are as a result of the questionnaires administered and the secondary data reviewed. The data was analyzed and summarized using frequency tables. This paper presents the findings from an objective appraisal of the responses and the information contained in the secondary materials. Eight questionnaires were distributed and six out of them were answered correctly and returned representing a 75 % response rate.

### **4.2 Profile of the respondent firms**

Large organizations usually have more complex operations and organization structures as compared to the smaller ones. From the review of the organizational structures, at KPLC and Kengen, the company structure was complex and consisted of semi-autonomous departments headed by departmental managers. The managers report to the managing director who further reports to the board. These managers are charged with directing the departments and also making departmental decisions. For independent power producers the structure is simple but still consists of departmental managers who report to the managing director or the general manager. Depending on the size of the company, some recognized the need to establish a strategic planning department whereas others did not find it important.

#### **4.2.1 Company ownership.**

In this section the researcher sought to find out the ownership of the companies under study. Choudhry and Samsud (2001) observed that institutional ownership affects the corporate productivity both directly and indirectly through interplay with a set of strategic choices. The ownership of a company affects the kind of decisions to be made and also restricts resources to some projects. An enquiry on whether the respondent company was locally owned, foreign owned or both, was met by the following responses. KPLC and Kengen are locally owned and are listed at the Nairobi stock exchange. This means that both KPLC and Kengen are owned by many shareholders and the shareholding keep changing depending on the trading at the stock market. Iberafrika power and Rabai power are foreign owned; Tsavo power is both local and foreign owned whereas GDC is wholly owned by the government. Power production is a capital intensive investment and local investors shy away from committing huge amounts of funds in such investments because the projects are highly risky. This explains why independent power producers have foreigners as their main shareholders instead of local investors

#### **4.2.2 Size of the company**

There are various parameters that can be used to gauge the size of the company and they include the a number of employees, capital base, number of customers and the annual turnover at a particular time .This study proceeded to determine the size of the firms on the basis of the number of employees and average annual turnover as at 31<sup>st</sup> December 2009. The results are shown in the table below.

**Table 4.1: Average annual turnover and the number of employees as at 31<sup>st</sup> December 2009.**

<b>Company</b>	<b>Number of employees</b>	<b>Average annual turnover</b>
KPLC	10,800	24 billion
Kengen	1,600	13 billion
Iberafrica Power EA Ltd	120	8.3 billion
Tsavo Power Ltd	160	9.6 billion
Rabai Power Company	65	7.0 billion
Geothermal Development Ltd	550	N/A

**Source: Survey data**

Data portrayed in the table above shows that both Kengen and KPLC are larger in size as compared to the other firms. The number of employees at GDC is also high but they have been operating for only one year hence no turnover figures recorded for year 2009. KPLC is the largest of them all and it follows that its company structure is more complex compared to the others. From the review of their organizational structure, the chain of command at KPLC is extensive starting from the managing director then divisional managers, followed by departmental managers, operational and other support staff and finally the junior staff. Kengen also had a complex organizational structure although not

as complex as at KPLC whereas independent power producers mainly had simple flat organizational structures.

#### 4.2.3 Age of the company

Most of the aged companies usually have well established structures and strategies to counter different scenarios as they emerge. This is because they have learnt from previous occurrences and therefore developed strategies to protect themselves and to improve performance in their businesses. The researcher sought to find out the age of the companies in order to see whether there is any correlation between the age of the company and the way strategies were being developed by these firms. The results are shown in the table below.

**Table 4.2: Age of the company.**

<b>Company</b>	<b>Age of the company (Years)</b>
KPLC	88
Kengen	56
Iberafrica Power EA Ltd	13
Tsavo Power Ltd	10
Rabai Power Company	4
Geothermal Development Ltd	1

**Source: Survey data**



Data presented on the table above shows that KPLC is the oldest company with 88 years of existence. It is closely followed by Kengen which has been in existence for 56 years and then the independent power producers follow. GDC is only one year old and so it is the youngest company in the group.

### **4.3 Modes of strategy development**

The first objective of this study was to determine the modes of strategy development employed by commercial electric power producers and distributors in Kenya. The process of strategy development is unique to every organization depending on the size, age, complexity and other organizational factors. Some companies develop strategies in advance whereas others implement emergent and un-intended strategies. The responsibility to develop strategies is assumed to be for the top management with little involvement by the lower level managers if any.

#### **4.3.1 Responsibility for strategy development**

Many organizations assume that strategy will be automatically developed by the top management and passed down to the other staff for implementation. The researcher made an enquiry on whose responsibility it is to develop strategies in the organizations and the following responses were received.

**Table 4.3: Responsibility for strategy development.**

<b>Person responsible</b>	<b>Number of times mentioned</b>	<b>Percentage</b>
Chief executive officer	2	20 %
Board	3	30 %
Managing director	1	10 %
General manager	1	10 %
Top management	2	20 %
Strategic planning department	1	10 %
Total	10	100 %

**Source: Survey Data**

Data portrayed in the table above shows that the board has the highest responsibility to develop strategies for many organizations with a rating of 30 percent. The top management and the chief executive officers are also commonly known to develop strategies among these firms being mentioned twenty percent of the times. At KPLC the corporate planning division, the board and the top management have traditionally spearheaded the planning process and performed the role of preparing the corporate strategy. Strategies are developed and then communicated downwards to the other parts of the organization through symbols, meetings and written materials. At Kengen, it is the responsibility of the board, managing director and the top management to develop strategies. For GDC, strategies are developed by the planning and strategy department

and then communicated to the other employees for implementation. Strategies in all these organizations can be seen as top management's intentions because the top management knows where they want their organizations to be in future and so they develop strategies that will lead the organization towards that strategic direction.

It is therefore evident that in most of these organizations strategies are developed by the top management then passed down to the lower level employees for implementation. An inquiry to the respondent at Kengen on why only the top management is involved in strategy development was countered by an answer that, it has traditionally been like that and it was felt they would make more quality decisions and take responsibility for the strategies.

#### **4.3.2 Mission and objectives**

A mission statement is a fundamental unique purpose that sets an organization apart from other organizations of its type and identifies the scope of its operations in terms of the purpose and the business it is in (Pearce and Robinson, 1997). It sets out the what, where and how of an organization. The respondents were asked whether their companies had a well established mission statement and if so, what was it and when was it developed?

The mission statements were as outlined below.

**Figure 4.1: Mission statements.**

*KPLC: Powering people for better lives*

*KENGEN: To be the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region.*

*GDC: To Develop 5000MWe from geothermal resources by 2030*

*IBERAFRICA POWER: Committed to providing the highest quality product and services beyond our customer's expectation*

*RABAI POWER: We strive to be a great and challenging place to work; be the most valued partner; be responsible corporate citizens; promote environmentally compliant and green energy solutions; be the preferred strategic partner and be a creator of solid financial returns*

*TSAVO POWER: To provide power to the national grid in a technically, responsible and environmentally sensitive way.*

**Source: Survey data**

The responses indicated that most of the companies developed their mission statements at the inception of their companies. However the older companies like KPLC and Kengen had their mission statement developed much later after inception because strategic

management practices were not very common by the time they were being incorporated. Although the two companies knew the purpose for their existence then, it had not been clearly documented at that time. An enquiry as to whether the mission statements had ever been revised was answered as follows. KPLC revised its mission statement in January 2010 because the previous one was too complex and hard for many people to remember. Iberafrica power revised its mission statement to incorporate the new standards that the organization had acquired. All the other firms had their statements remain with no alterations over the years because they did not have any reason to make changes. They believed that the current mission statement is serving them properly and efficiently.

Although all these firms are power producers apart from KPLC, they have different purposes for their existence and that's why their statements are different. Rabai has the longest mission statement whereas KPLC has the shortest statement. Even though the statements differ, they all indicate; the business the organization is in, the relationship between the organization and its stakeholders; broad goals of the organization; expected performance and also the basic organizational policies. Objectives for these companies are developed in line with the strategic plans and the annual budgets that are developed in advance.

#### **4.3.3 Command view strategy development process**

The command view sees strategy as the outcome of influence of an individual or a small group of people but not necessarily through formal plans. As shown in (Table 4.3), at

Iberafrica it is the responsibility of the general manager to develop strategies which means that as a leader he directs the strategy making process. In the other organizations the managing directors act as a link between the company and the board of directors and play a key role in the board decisions. From the company's perspective it is evident that, chief executives, general managers and managing directors have assumed a leading role in strategy development process. The organizations were generally seen to be following the commands given by the top management by implementing strategies that were passed over to them by the top management. The top management plays a leading role by giving a strategic direction to their organizations. For most organizations, strategies were mainly developed through the influences of the chief executive officer; the dynamics of the regional economy; desires of the government and effective internal analysis.

#### **4.3.4 Logical incrementalism**

Logical incrementalism can be thought as a deliberate development of strategy by learning through doing. For independent power producers namely Tsavo power, Rabai power and Iberafrica power, managers have a view of where they want their organizations to be in future and so they aim at evolutionary moving towards there. Each of these firms has a vision which stipulates the management's aspiration for their organization. From the review of the policy related documents, it was evident that, these firms did not have a well documented strategic plan but they implemented some changes incrementally from time to time. They learnt through doing and so strategies were sometimes developed basing on the circumstance at hand. After scrutinizing the annual

financial reports for these companies over the years, it was evident that these firms had a stable stream of cash flows and this could be the reason as to why they have not been necessitated to prepare long term strategic plans in advance. Competition is also minimal and indirect as the firms mainly strive to meet the requirements set under the power purchase agreements in terms of how much to generate and not necessarily to compete with the other power producers.

#### **4.3.5 Imposed strategy**

Organizations may be constrained in their strategy making process resulting to the implementation of an imposed strategy. This section aimed at establishing whether these firms have some strategies imposed on them either by the parent companies, the government or any other body. In answering a question as to how the government influences the strategy making process, KPLC and Kengen indicated that they are bound by the government to at least employ 30 percent of their employees as women. KPLC is the only electric power distributor in Kenya and it is bound by the government on how much to bill for power that it has already distributed to the customers. Kengen and independent power producers are bound by the government energy policies on how much they can sell their power to KPLC after generation. GDC being a wholly government owned corporation is bound by the government decisions and so all its strategies have to be in line with the government policies. Since independent power producers are mainly foreign owned, their parent companies often impose strategies by dictating the strategic options to be taken or even constraining financial resources.

#### **4.4 Formality in strategy development**

The key aspects of formality in strategy development include the development of strategies by the top management, detailed degree of analysis, extensive documentation and more time usage in developing the strategies. Pearce and Robinson (1985) measured formality by looking at whether firms had written year plans with objectives, strategies and other resource needs. The study proceeded to determine the extent of formality in strategy development by these firms. The respondent was asked whether the company had a well documented strategic plan and policy documents. KPLC, Kengen and GDC had a documented strategic plan which was readily available for review.

The other producers did not have a documented strategic plan but had annual budgets and other short term plans documented. At Iberafrica, Tsavo and Rabai, formality in strategy making was at a lower level. Although they did not have a compact well documented strategic plan, it was evident that they were in the process of developing one because there were some policy manuals, budgets and other planning materials that had been documented. Each and every department had its operational manual which was conforming to the company's overall objectives and goals. It was evident that the bigger companies which are KPLC and Kengen developed strategies in a more formal way as compared to the smaller ones. The process was characterized by; top management involvement in strategy development, more time spent in developing the plans, proper documentation of the plans and the plans being communicated to the other employees in an organized way.



A question was posed on how strategies were communicated to the other parts of the organization and it became evident that meetings, symbols and written materials were equally used in communication of strategies in all the companies as shown in the table below.

**Table 4.4: Methods of communicating strategies.**

<b>Method of communication</b>	<b>Number of times mentioned</b>	<b>Percentage</b>
Written material	6	33.3 %
Symbols	6	33.3 %
Meetings	6	33.3 %
<b>Total</b>	<b>18</b>	<b>100 %</b>

**Source: Survey data**

Data portrayed in the table above shows that all the three methods have an equal rating in terms of usage which is represented by a 33.30 percentage each. The three methods are used concurrently to enhance effectiveness and efficiency in communication throughout the organization. Good communication minimizes resistance to change which is a threat to strategy development and implementation. It also indicates how formal the strategy development process is in the organization.

To find out the extent to which the strategy development process consumed time in these organizations, size and complexity of the plans were considered and it was evident that, documented strategic plans had consumed a lot of time to develop. Kengen has a formal documented strategic plan and the following diagram represents its extract.

**Figure 4.2: An extract of Kengen’s strategic plan. Source: Survey data**

***Kengen’s good to great “G2G” transformational strategy***

Vision: To generate over 3000MW by 2018

Mission: To be the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region.

**Strategic pillars**

<i>-Capital planning &amp; Execution</i>	<i>-Regulatory Management</i>	<i>-Operational Excellence</i>
<i>-Effective delivery of current</i>	<i>- improve single buyer</i>	<i>- optimize maintenance</i>
<i>Projects</i>	<i>model</i>	<i>practices</i>
<i>-Geothermal expansion</i>	<i>-steer deregulation process</i>	<i>- reduce operational &amp; overhead costs</i>

**4.5 Factors influencing strategy development**

The second objective of this study was to establish the factors influencing strategy development by commercial electric power producers and distributors in Kenya. Some

factors are strongly considered in some organizations whereas in other organizations the same factors are less important. Some of the factors that influence the process of strategy development in organizations include stakeholder's expectations, resource availability, government policies, politics, organizational culture and parent companies among others. The respondent was asked to tick where appropriate the factors that influenced strategy making in their organizations.

Data presented in the table below shows that legislation and resource availability are the most common factors that highly influence strategy development having a score of 18 percent each. Stakeholders also have a key role in the process by shaping the kind of strategies developed. There is a 15 percent chance that stakeholders would influence the strategy making process. Organizational culture also plays a vital role in the process with a score of 15 percent. Other factors that influence strategy development include organizational politics, parent company policies, customers and competitors. The extent to which these factors influenced the strategy making process depended on the nature of the company and its ownership. For KPLC customers are vital in the process as its mission reads "powering people for better lives" which means that they work towards satisfying the final consumers. Independent power producers are mainly foreign owned and so parent company policies influence the process greatly. Generally, political considerations, desires of the government, the preferences of the chief executive officers, and the pressure of environmental dynamics are the main factors that influence the process of strategy development in these organizations.

**Table 4.5 Factors influencing strategy development.**

<b>Factors</b>	<b>Number of times mentioned</b>	<b>Percentage</b>
Legislation	6	18 %
Parent company policies	3	9 %
Resource availability	6	18 %
Competitors	2	6 %
Customers	1	3 %
Stakeholders	5	15 %
Organizational culture	5	15 %
Leadership	1	3 %
Politics	4	12 %
<b>Total</b>	<b>33</b>	<b>100 %</b>

**Source: Survey data**

#### **4.5.1 Enviromental analysis**

This section sought to find out the external factors that influence strategy development in the firms and it was met by the following responses. Independent power producers mainly use heavy fuel to generate electric energy and therefore instability in fuel prices is detrimental to revenue generation for the companies. At present time political instability in the Middle East and specifically in the oil producing and exporting (OPEC) countries represents a risk to the throughput and revenue generation stream of the companies. The

power producers are also restricted by the government on how much they can sell their power to KPLC through the readily established tariffs in the power purchase agreements.

#### **4.5.2 Internal organizational analysis**

Nearly all of these organizations are seen to be implementing expansion and investment strategies among the other strategies that they have. With increased competition in the sector power, expansion becomes vital to increase the production of the firm and the future survival. Kengen have undertaken mega projects in its expansion programs including exploitation of geothermal and wind sources of energy. It has been a consistent payer of taxes and dividends to its shareholders (Kengen's annual reports, 2008-2009) which means that the company has a strong financial base to support its operations and expansion projects. KPLC is also undertaking many programs in trying to meet the demand of a fast growing market and also penetrate the rural areas to provide power. Iberfarica power recently constructed an extension of a power plant next to its older plant to generate over 50 MW of power and feed in to the national grid.

A review of the policy documents for all of these companies indicated that there is high investment in technical competence of the staff by providing effective training and development programs. This has been facilitated by good corporate liquidity and a culture of learning in the organizations. One prevalent weakness that independent power producers have is the inability to protect their reservoir of knowledge resulting to loss of qualified personnel to the other organizations. At KPLC and Kengen the rate of employee

turnover is lower than for independent power producers probably because of a good remuneration packages that they have.

#### 4.6 Tools used in strategy development

In this area of study, the aim was to find out the various tools that are used in developing strategies in the organizations. The results were as follows.

**Table 4.6: Tools used in strategy development**

<b>Tool</b>	<b>Frequency</b>	<b>Percentage</b>
Envirometal scanning	4	19 %
Capital planning and budgeting	6	21 %
Scenario planning	5	20 %
Stakeholders analysis	4	19 %
Portfolio models	1	3 %
Key success factors	4	18 %
<b>Total</b>	<b>24</b>	<b>100 %</b>

**Source: Survey Data**

From the table above, it is evident that majority of the firms use capital planning and budgeting to develop strategies which is represented by 21 percent. Being the traditional way of developing plans, budgets characterize most of the elementary planning. The data further portrays that 20 percent of the organizations used environmental scanning. They

exist within a turbulent unpredictable environment and therefore have to prepare for future scenarios. From the data above, 19 percent of the firms analyzed the stakeholders and the availability of resources before developing their strategies. Portfolio models were hardly used by the firms in the strategy making process may be due to the complexity involved in their usage. Even though the process of strategy development is complex, none of these companies was found to engage an external consultant in developing the strategic plans, strategies were developed in house. The organizations preferred to develop their own employees by equipping them with the necessary skills required to develop strategies.

#### **4.7 Discussion of the findings**

Organizations are continuously embracing the concept of strategy development besides the traditional planning methods like the budgets. The way strategies are developed by organizations is different depending on the context they are in. This study found out that power producers and distributors in Kenya have embraced strategy development which was evidenced by the existence of well documented strategic plans and other planning related materials. Even a firm like KPLC which does not face competition has a strategic plan which enables it to achieve improved performance and efficient utilization of resources. The move towards strategy development is aimed at increasing performance and acquiring sustainable competitive advantage for the firms. Malusi (2006) in his study of strategy development and its challenges in Kenyan Public corporations found out that public sector organizations have embraced strategy development as a result of demands

for greater efficiency in utilization of resources and provision of goods and services from the general public and donor agencies like the World Bank.

In many organizations the responsibility to develop strategies lies with the top management but in some cases the lower level employees are also involved. This study observed that, it is the responsibility of the top management and the board of directors to develop strategies which are then passed down to the other parts of the organization for implementation. This was the case for all the commercial power producers and distributors which meant that they used top down approach in strategy development. Kitangita (2009) in his study of strategy development and implementation at Kenyatta International Conference center found out that bottom up approach was mainly used in developing strategies in this organization.

It was further observed from the study that strategies for these organizations were command driven because the chief executives, general managers and managing directors were found to direct the strategy making process in order to achieve the targeted results. Ansoff and McDonell (1990) observed that a strategic leader brings in to play the critical managerial issue of how to achieve the targeted results in light of the organization's situation and prospects. The study further noted that out of the population being studied, the smaller firms which were mainly the independent power producers, emergent strategies were being implemented and since the managers knew their aspirations for their firms, they learnt through doing and scenarios were handled as they emerged. Even though the strategic plans were not there, other planning materials like budgets, short



term plans and other policy documents were available meaning they also exercised some form of elementary planning. Quinn (1980) discusses logical incrementalism and argues that strategic management is best viewed as using a continuous evolving and consensus building process.

The second objective of this study was to establish the factors influencing strategy development by commercial electric power producers and distributors in Kenya. This study found out that legislation and resource availability were the greatest factors that influenced the process to strategy development for commercial power producers and distributors. This is because all these firms are open systems and they exist in a turbulent operational environment. In an attempt to comply with the government policies and regulations, these firms have had to review their strategies and sometimes leading to imposition of strategies. Pearce and Robinson (2007) observed that political factors define the legal and regulatory parameters within which firms must operate. Okiro (2006) in his study of strategy development processes and factors influencing them at Kenya Pipeline Company limited noted that the government played a key role in shaping the kind of strategies developed in the company. Resource availability is a key factor because a strategy that is developed but fails to be implemented does not add value to the firm. Implementation of these strategies requires allocation of the relevant resources and if the firm does not have access to them it may be demoralized to develop strategies in that area.

Okiro (2006) further observed that, other factors like organizational politics, customers, competitors and culture also had a role to play in the development of strategies. In this study it was found out that, the extent to which these factors affected the process of strategy development differed depending on the nature of the organization. Aosa (1992) stated that it is important that the culture of an organization be compatible with the strategy being implemented. Culture cannot be ignored because it could lead to strong resistance to change if it is not compatible with the strategy being implemented.

Companies that were foreign owned were found to be highly controlled by their parent companies in their strategy making process. Being the owners of the organizations they control all the resources to the firms and also the power to make crucial decisions. Choudhry and Samsud (2001) observed that institutional ownership affects the corporate productivity both directly and indirectly through interplay with a set of strategic choices.

# **CHAPTER FIVE: SUMMARY OF THE FINDING, CONCLUSIONS AND RECOMMENDATIONS**

## **5.1 Introduction**

This chapter presents the summary of the findings from chapter four, conclusions and recommendations of the study based on the objectives of the study.

## **5.2 Summary of the findings**

The study found out that, with reference to the size of the companies, KPLC was the largest with 10,800 employees and 24 billion Kenya shillings average annual turnover as at 31<sup>st</sup> December 2009. It was followed by Kengen with 1,600 employees and 13.4 billion Kenya shillings average annual turnover on the same date. KPLC was found to be the oldest company being in existence for 88 years, followed by Kengen which has been in existence for 56 years whereas GDC was the youngest company with only one year of existence. On the issue of ownership, the study established that; KPLC and Kengen are locally owned, Tsavo power ltd is both local and foreign owned whereas Iberafrica power and Rabai power are foreign owned. GDC is wholly owned by the government and hence it is local.

The study also established that in all of these organizations, the top management was responsible for developing strategies in the organizations with the help of the board of directors. The strategies were developed by the top management then passed down to the other parts of the organization through meetings, symbols and written materials for

implementation. This means that top down approach was being used in strategy development by commercial power producers and distributors. The mission statements were also developed by the top management and the board and then communicated to the other employees in the organization. The mission statements for Both KPLC and Kengen were developed long after the inception of the companies but for the rest of the companies the statements were developed at the inception of the companies.

On issues of formality in strategy development, KPLC, Kengen and GDC were found to have elaborate documented strategic plans. All the other firms namely Iberafrica, Tsavo and Rabai had their plans in form of budgets and other short term plans. Iberafrica for example had well documented policy manuals with each and every department having its manual which included the quality, environmental, health and safety manuals.

The study also asserted that there were cases of imposition of strategies by the government and the parent companies. At KPLC and Kengen the government has the highest shareholding which means that it has a great influence on decision making. For example these companies are required to employ 30 percent of their employees as women and so when they are developing their staffing plans they have to take this in to consideration. GDC being wholly government owned have to make sure that all the strategies that it develops are in line with the government policies. Parent companies on the other hand dictate the kind of decisions that companies should undertake and this means that the independent power producers who are foreign owned were bound by the parent company policies. These parent companies also restrict resources and so their

subsidiaries have no choice other than to follow the orders they are given by their parent companies.

In addition the study found out that resource availability and legislation are the factors that highly influence the strategy making process. Stakeholders also play a vital role in shaping the kind of strategies that are developed by organizations. Organizational culture influences strategy making process through resistance to change and the development of strategies out of experience. In some these organizations new strategies developed out of the existing strategies rather than taking a completely different direction in a punctuated equilibrium. Capital planning, budgeting and stakeholders analysis were found to be the most critical factors that were used in developing strategies for most of the organizations.

### **5.3 Conclusions**

From the study, on the strategy development modes, commercial electric power producers and distributors mainly used the planning mode whereby strategic plans are made in advance. However, there are cases of strategies being implemented even without earlier plans being made and hence the existence of emergent strategies in the organizations.

The study also concluded that most firms had the top management and the board responsible for developing strategies in the organizations. It was either the managing director or the general manager with the help of the board who developed corporate strategies.

On the issue of factors influencing strategy development, the study concludes that the main factors include resource availability, legislation, stakeholders and organizational culture which were found to have a greater impact on the strategy making process. The extent to which these factors were felt however depended on the nature of the organization. Other factors that were scarcely found to influence the process were customers, competitors, politics and parent company policies as they were mainly dependent on the core business of the firm and the ownership structure. Parent company only affected those companies that were foreign owned but not the locally owned ones like KPLC and Kengen.

In addition the study also concludes that most firms had documented plans although some plans were more elaborate than others. Larger companies had more formalized strategic plans than the smaller ones. The complexity of the strategy making process was related to the size of the firm among the other contextual factors.

Although most of the strategies that were being implemented in these firms were intended strategies, there were also cases of emergent strategies being explored and implemented. Looking at the core business of these firms, as commercial businesses and from the stand point of an investor, the primary concern is about the creation of value which is driven by three main factors namely higher returns, rapid growth and lower risk undertaking. Intended strategies are therefore developed taking in to consideration the three factors.

The study also concluded that firms that are foreign owned, government owned or those that have the government as the major shareholder face imposition of strategies by these bodies through laid down policies and resources being constrained. Parent companies also impose strategies to their subsidiaries through directly influencing the strategy making process or constraining resources.

#### **5.4 Recommendations**

Strategy development should be seen as a process that gives the organization a strategic direction and could lead to improved performance and sustainable competitive advantage. The process should therefore be seen as a process to overcome obstacles and help the organization to achieve its objectives. Whether small or large, profit oriented or not, all organizations must develop, implement and evaluate strategies in a continuous manner. Organizations should have a well established strategic planning department to improve the strategy making process and also ensure there is efficient utilization of resources.

Essentially, the determination of strategies should be the responsibility of the top management but ideas should be sought from the whole organization in a participative approach to ensure that all employees own the strategies before implementing them and do not consider them as “top management’s strategies”. A question lingers on the extent to which the top management can be held liable in case the strategies they developed fail. It is more probable that even the other lower level employees will share in the blame especially on implementation. Is it the top management alone that should be involved in

strategy development or all the other stakeholders should also be involved? The study recommends that the process should involve all stakeholders to improve effectiveness.

### **5.5 Suggestions for further research**

Further research should be carried out on strategy implementation, evaluation and control by commercial electric power producers and distributors in Kenya. This is because a strategy has to be implemented and continuously evaluated for it to add value to the organization. The effectiveness of a strategy can only be as good as its implementation. It would also be useful to establish how effectively strategy implementation takes place for commercial electric power producers and distributors.

I also suggest that further research be done specifically on how various factors influence the process of strategy development in organizations. Factors like legislation, resource availability, stakeholders and organizational culture among other factors pose great challenges to organizations while developing strategies and the way these factors can be managed is a key area of study.

More research should also be carried out on strategy development under different contexts like in other countries. This will help in establishing how the processes compare with strategy development by the Kenyan firms.



## **5.6 Limitations of the study**

This study received a high level of responses from the companies as the project was being carried out, but a number of problems were experienced which hampered the smooth running of the project. There was lack of cooperation from some of the chief executives (CEO's) in the process of convincing them to spare a little time and fill in the questionnaires. Getting accessibility to some of the respondents was close to impossible because of the nature of their commitments.

The tight academic schedule that the researcher was operating in did not provide ample time to push those companies that did not respond on time and hence not all the companies in the population were researched. Companies that are outside Nairobi were also very expensive to reach in terms of time and finances.

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## APPENDICES

### APPENDIX I: INTRODUCTION LETTER

Mercy Rukenya,  
P.O Box 1767,  
Karatina.

28<sup>th</sup> September 2010.

The Managing Director,  
Tsavo Power Company Ltd,  
Nairobi.

Dear Sir,

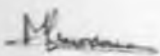
**RE: STRATEGY DEVELOPMENT BY COMMERCIAL ELECTRIC POWER  
PRODUCERS AND DISTRIBUTORS IN KENYA.**

I am a post graduate student at the University of Nairobi, school of business. In partial fulfillment of the requirements for the degree of masters in Business Administration, I am undertaking a management research project on the above topic in order to determine and share insights on this topical issue.

You have experience that would be of great value to this research and so I kindly request you to assist me in filling the attached questionnaire. Please respond to all the questions to the best of your knowledge. My supervisor and I assure you that the information given will be treated with utmost confidentiality and a copy of the final report will be availed to you upon request. The information provided will be used exclusively for the purpose of this research.

Your cooperation will be highly appreciated.

Yours faithfully,



Mercy Rukenya

## APPENDIX II: RESEARCH QUESTIONNAIRE

This questionnaire is set with reference to the study objectives for the research topic.

Kindly fill it accordingly.

### PART A. GENERAL INFORMATION

1. Position of the respondent \_\_\_\_\_
2. Years served in the company \_\_\_\_\_
3. How would you classify the firm in terms of ownership? (Tick where appropriate)  
Foreign ( )                      Local ( )                      Both ( )
4. What is the size of the company in terms of the number of employees and the turnover?  
\_\_\_\_\_  
\_\_\_\_\_

5. How long has the firm been in existence? \_\_\_\_\_

### PART B. STRATEGY DEVELOPMENT

1. Does the company have a mission statement? If so when was it developed and what is it?  
\_\_\_\_\_  
\_\_\_\_\_
2. Has the mission statement been revised ever since it was developed? If yes, Why was it revised?  
\_\_\_\_\_  
\_\_\_\_\_

3. Does the company have a documented strategic plan? \_\_\_\_\_

4. Who is responsible for developing strategies in the organization? \_\_\_\_\_

5. Does the company have an external consultant to help in strategic planning? \_\_\_\_\_

6. What do you consider to be the most important factors (critical factors) when you develop your strategies? (e.g Legislation, stakeholders, competitors, resources, culture e.t.c) \_\_\_\_\_

7. What challenges are experienced in developing the strategies?

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

8. How are the strategies communicated to all the other departments in the organization?

(Tick where appropriate)

Written ( )      Symbols ( )      Meetings ( )      All the above ( )

Others, specify ( ) \_\_\_\_\_

9. Listed below are some the tools and techniques that may be used in developing strategies. Tick where appropriate any method that is applied in your organization.

Capital planning and budgeting ( )

Stakeholder analysis ( )

Key success factors ( )

Portfolio models ( )

Scenario planning ( )

Enviromental Scanning ( )

Others (Specify) \_\_\_\_\_

**PART C. FACTORS INFLUENCING STRATEGY DEVELOPMENT.**

1. What factors influence strategy development in your organization? (e.g resource availability, competitor forces, legislation, Parent company policies e.t.c)

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

2. Does the government influence strategy development in the organization? If yes, how does it influence? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Does the parent company have an influence on strategy development? If yes, how does it influence? (Foreign owned companies) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



4. Please indicate whether the following factors influence strategy development in the company

Organizational culture ( )

Stakeholders ( )

Politics ( )

5. Do values and beliefs of employees play a significant role in strategy development? \_\_\_\_\_

6. Do you experience a strong resistance to change within the organization?

Yes ( )

No ( )

7. Do you find the government structures and procedures complex? (Tick where appropriate)

Yes ( )

No ( )

**Thank you for your time and participation**

**APPENDIX III: ELECTRIC POWER PRODUCERS AND  
DISTRIBUTORS IN KENYA**

**POWER DISTRIBUTOR**

KENYA POWER AND LIGHTING COMPANY LIMITED

**POWER PRODUCERS**

1. KENYA ELECTRICITY GENERATING COMPANY
2. TSAVO POWER COMPANY LIMITED
3. IBERAFRICA POWER EA LTD
4. RABAI POWER STATION
5. MUMIAS SUGAR
6. ORPOWER 4 INC
7. GEO-THERMAL DEVELOPMENT COMPANY LIMITED

*Source: Energy Regulatory Commission- Kenya website [www.erc.go.ke](http://www.erc.go.ke)*