

**RESPONSES OF NZOIA SUGAR COMPANY
TO CHALLENGES IN ITS EXTERNAL
ENVIRONMENT**

**BY
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**A MANAGEMENT RESEARCH PROJECT
SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER
OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI
OCTOBER 2007**

DECLARATION

This study research project is my original work and to the best of my knowledge, it has not been presented for examination to any other University.

Signed.....

Date

Mohamed R. A

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

Signed.....

Date

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DEDICATION

This research project is dedicated to my late mum, Mishi Ngena Ali. I honour you mum for your effort and courage to have your daughter go to school. It is unfortunate you did not live to witness this but I know you are seeing your efforts in me. May Allah shower you with His blessings.

I also dedicate it to my children Nasrin, Rashid and Soraya who missed some quality time with their mum as I took time to study.

ACKNOWLEDGEMENT

I would like to recognize several persons whose contribution in terms of encouragement, guidance and intellectual criticisms has to be acknowledged.

My first gratitude goes to my Creator for having made me what I am, good health, and seeing me through the course.

University of Nairobi for giving me the opportunity to pursue my MBA. The course was an eye opener for me.

My supervisor Dr. J. Yabs who spent a lot of his time and effort to make sure my work is to the required standard.

Mr. Kagwe whose intellectual criticisms were very helpful to shape my research project.

All lecturers and fellow colleagues who encouraged me at various level during my study.

Managing Director, Mr. J. Akoyo, Nzoia Sugar Company who agreed the study be done at the Company and cooperated at data collection.

Esther of Perth Consultants who assisted in data processing used in the study.

Finally, I would like to thank ICRAF (World Agro-forestry Centre) for having sponsored me to undertake the MBA at University of Nairobi.

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ABSTRACT

This study was carried out to determine how Nzoia Sugar Company has responded to various changes in its external environment.

To do this a survey was conducted by use of questionnaires targeting the top managers of Nzoia Sugar Company. The questionnaire had both closed and open-ended questions. The researcher administered the questionnaire personally to the respondents.

In chapter one, I looked at various definitions of organization and how they interact with the environment within which they exist. Success of organization depends on securing a proper “fit” or alignment between itself and its environment.

The problem of the study was to examine how Nzoia Sugar Company has responded to challenges in its external environment.

In chapter two, I have discussed how the various variables like organization structure, objectives, goals, strategy, integrated plan, politics and organization scanning can determine how an organization responds to challenges in its environment.

In chapter three, I have outlined the methodology and chapter four the findings of the study how Nzoia Sugar Company has responded to the changes in its external environment by: developing a Strategic Plan to handle the challenges, creating responsive department and employing qualified staff to head these departments, redefining a new vision, mission and objectives for the company and each department, engaged into factory rehabilitation to manage higher and efficient production, has improved infrastructure to manage cane transportation to the factory and improving cane variety to have high sucrose content.

The study further found out that the change in customer’s behaviors and performance improvement are some of the major external factors that led to change in the Company. Responding to the customer’s needs meant performance had to be improved which led to improved earnings in two consecutive years. Competition was a factor but to a small extent in that almost all sugar produced is sold.

Chapter five is the conclusion and the recommendations for further study.

LIST OF ACRONYMS

| | | |
|--------|---|---|
| NSC | - | Nzoia Sugar Company |
| COMESA | - | Common Market for Eastern and Southern African States |
| EA | - | East Africa |
| CEO | - | Chief Executive Officer |
| TC/TS | - | Ton of Cane / Ton of Sugar |
| USA | - | United States of America |
| TCD | - | Tons of Cane per Day |
| SDL | - | Sugar Development Levy |
| VAT | - | Value Added Tax |
| ICT | - | Information and Communication Technology |
| NGO | - | Non- Governmental Organization |
| SAP | - | Structural Adjustment Programme |
| HOD | - | Head of Department |

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CHAPTER ONE

INTRODUCTION

1.1 Background

Buchanan and Huczynski (1991) defined an organization “as a social arrangement for controlled performance of collective goals.” This definition, concise though, shows us that two most important features of an organization are social arrangements and they exist to achieve goals. From this definition organizations can be said to contain people who perform a role to achieve collective goals, and when roles are taken together organization is able to achieve its collective goal.

Winner (1977), refers to organization as social arrangements such as factories, bureaucracies, armies, research and development teams , created to achieve technical, rational productive ends.

The Tavistock Institute of Human Relations in London view an organization as a system. One of the Tavistock researchers, Trist (1960) introduced the idea that an organization can be considered not just as an open system, but as an open socio-technical system. A system as defined by the Institute of Human Relations in London is something that functions by virtue of the interdependence of its component parts and a socio-technical system as a system which possesses both a material technology and a social organization, Trist (1960).The social system and technical system in an organization clearly must interact and are interdependent. Trist argued that a social organization has social and psychological properties independent of the demands of technology.

According to Campbell (1997) organization is viewed as a human body, which is an example of an open system. An open system is a system that interacts, in a positive way, with its external environment in order to survive.(Rice 1967). The human body requires several essential inputs such as air, food, heat, shelter and water. The body converts these in its normal functioning and then produces its output energy, work, exhaled air, products and excretions. The body is utterly dependent in order to survive.

Buchanan and Huczynski (1991) argue that environmental determinists see an organization as being in constant interaction with the environment within which it exists. Some of the

environmental determinists argue that success of an organization depends on securing a proper 'fit' or alignment between itself and its environment. Hence to be effective an organization has to structure and restructure constantly to maintain alignment. One prominent environmental determinist, Lawrence,(1967) argued that ' tell me what your environment is, and I shall tell you what your organization ought to be' (.Argyris, 1972)

The environmental determinists argue that because an organization is dependent on its environment, that environment constraints the kinds of strategic choices an organization can make about how it structures itself. Determinism is the belief that some variables such as technology or environment determine, that is, are the direct cause of, changes in other variables such as the degree of specialization, that are to be found in an organization and strategic choice is the view that organizational structure is wholly a company management decision. It is senior management which decides which technology to adopt, how it is introduced and used, what products are to be manufactured and in which markets they are to be sold. As the environmental situation changes the organization-environment relationship also changes. Hence, to be effective, a company has to structure and restructure constantly to maintain alignment. The environmental determinists use key concepts of environmental uncertainty and environmental complexity in their explanations. (Buchanam & Huczynski – 1990).

The systems theorists, in the light of their comparison of organizations to organism rejected the simplistic view of classical and human relations theorists. Classical theories emphasized on technical requirements of the organization and its productivity needs; they looked at "organizations without people". In contrast, Human Relations theories focused too much on the psychology and interaction of people. They looked at "people without organization" (Buchanan & Huczynski 1990).

In reality organizations comprise both the technical features and the human input emphasized by Mayo (1933). Systems Theory holds that organizations are socio-technical systems. In socio-technical systems, it cannot be said that people are more important than an organization's technology, structure, work methods or any visible or tangible features. Both are equally necessary and more importantly, both are subject to influence from the

organization's external environment. In the context of an open system, a failure will harm the normal working of the organization. Emery and Tryst (1960)

Writers in Systems Theory adopting a holistic view of organization derived a list of variables, which was suggested, were major determinants of output, such as people, and social groups, technology, organization structure and external environment.

Organizations are environmental dependent Ansoff and MacDonnell (1990). An organization environment according to Pierce and Robinson (1997) consists of conditions and forces that affects its strategic options and explains its competitive situations.

Organization External Environment

Campbell, (1997) defines organization external environment as factors, conditions that are beyond the direct control of influence of an organization". These factors depend on the complexity and dynamism of the environment. Thus the external environment has been classified as being "stable" when it does not show any changes, "unstable" when it shows relative change and "dynamic" when it shows changes continuously. According to Burns and Stalker (1961), when organizations see their environment as turbulent and complex they respond with more complex organic structures which reflect the variety in the environment. Similarly, when organizations see their environment as stable and unchanging, they organize in ways that are more simple and mechanic. (Journal of Organizational Change Management Vol. 13 No. 6. (2000)

Barnard (1938) urged that performance is the major objective of an organization, it is generally acceptable that the structure and decision making in an organization is influenced by environmental complexity and volatility. The organization's survival depends on the environment it is operating in, and it is therefore very vital that an organization gets to know its environment and any changes in its environment that will affect its performance.

The early contingency researchers of the 1950s and 1960s took a determinist view on the effect of technology and the environment on organizational structure. By the 1970s, later contingency researchers viewed that attention should be given to choices being made by those who had the power to direct organizations. This came to be known as the strategic choice perspective and stands in contrast to determinism, although both branches are within the contingency approach. Strategic choice writers assert that the relationship between an

organization's structure and its technology or environment is not automatically determined by these variables, but is a reflection of choices made by management based on their perceptions and interests. Buchanam and Huczynski (1990).

According to Child (1972), he summarized perception as to see the design of organizations' structures as being 'an essentially political process in which constraints and opportunities are functions of the power exercised by decision makers in light of ideological values'.

According to Cole (2000) the external environments in which organizations operate have been changing and noted some of these changes to include:

Increased customer expectations especially in terms of quality and range of consumer goods and personal services,

Rapid advance of technology which has revolutionized many of processes by which goods and services are made available,

Increased competition in domestic and world markets,

Greater concern worldwide for the protection of the environment,

Greater emphasis on consumer's rights in terms of safety, reliability, better information and many more,

Increased supra-national laws and regulations affecting business as a result of decisions made by groups such as European Union(EU),General Agreement on Trade and Tariffs (GATT), Oil Producing and Exporting Countries(OPEC), changing political situations in major markets especially the opening up of the former Soviet Union and now China. The scenario presented by all these changes is a complex one which requires organizations to look well beyond their boundaries.

1.2 Nzoia Sugar Company Limited and the Sugar Industry

The Sugar Industry occupies a central position in Agricultural Sector, which is the mainstay of Kenya's economy. The industry supports an estimated six (6) million Kenyans representing 20% of Kenyan population. Sugar is also the second largest contributor after tea. Kenya is a net importer of sugar.(Statistical Abstract, 1996)

This is against the backdrop of surplus sugar production in the global market. To cover for the shortfall of local sugar production sugar is imported into the country mainly from COMESA region.

On the global scene, the surplus sugar being produced has depressed world sugar prices. The big players in the industry namely Australia, Brazil, European Union, India, Japan, South Africa, Thailand and USA are striving to improve efficiency and cut costs in order to maintain their global competitive position. Kenyan sugar companies must follow suit if they have to survive. The local sugar industry has secured protection from imports from COMESA for a period of four years. After expiry of this period in 2008, there will be unprecedented competition from COMESA. It is important that Nzoia Sugar Company participates in COMESA as trade in this area has grown phenomenally. In addition, the East African Common Market has become a reality. This means more competition from within East Africa. Local companies have to prepare themselves and face new competition if they have to survive. Kenya produces 450,000 tonnes of sugar against consumption of 650,000 tonnes. The deficit of 200,000 tonnes is met especially from COMESA countries. Nzoia Sugar Company is the second largest producer of sugar in the country after Mumias Sugar. Nzoia is located in Bungoma District and serves farmers in Bungoma, Lugari and Kakamega Districts. (Nzoia Sugar Company Data)

Rainfall ranges between 1500-1800mm and temperature is between 30-32°C. The company is endowed with water resources from Chalicha springs and River Kuywa, which traverses its Nucleus Estate. The Nucleus Estate has an acreage of 3700ha and Outgrower Zone spanning 16,000ha. The Outgrower zone encompasses 31,500 farmers in total. Varieties of sugar cane grown include Co421, Co945, N14, EAK82-808 and KEN 83-737. The current sugarcane yields average 80tonnes per hectares, which translates to 90-120 hectares per plant crop and 60-80 tons per ratoon.

The company was established in 1975 and started operations in 1978. (Nzoia Sugar Company Library)

The share holding of the company is tabulated below:

Table 1.1: Ownership Structure of Nzoia Sugar Company Ltd.

| Shareholders | Holding (Ksh.) | % Percentage |
|-----------------------------|--------------------|--------------|
| Government of Kenya | 521 Million | 97.93 |
| Fives-Cail-Babcock (FCB) | 6 Million | 1.13 |
| Industrial Development Bank | 5 Million | 0.94 |
| Total | 532 Million | 100% |

Source: Nzoia Sugar Company data

The company has had four management changes since inception as follows:

Table 1. 2: Management at Nzoia from Inception to date:

| Management | Period: From | Period: To |
|----------------------------|--------------------------------|-------------------------------|
| FCB & Technisucre | 7 th October 1975 | 4 th January 1979 |
| Government of Kenya | 3 rd January 1970 | 11 th January 1999 |
| F.C. Schaffer & Associates | 12 th January 1999 | 31 st August 2003 |
| Government of Kenya | 1 st September 2003 | To date February 2006 |

Source: Nzoia Sugar Company Ltd. data

Capacity

Nzoia had an initial milling capacity of 2000tons of cane per day (TCD) in 1989, this capacity was expanded to 3000TCD. Currently the average milling capacity is 2600TCD. The company has a workforce of 7200 employees including casuals.

Nzoia’s Sugar Company External Environment

No organization can exist in a vacuum, each is set in a particular country and region to which it is inextricably linked. This setting provides multiple contexts that influence how the organization operates and how and what it provides. Thus the concept of “external environment” is an important consideration for Nzoia Sugar Company as it attempts to define its performance in the industry. An analysis of the external environment is an attempt to understand the forces outside the organizational boundaries that are helping to shape the organization.

Forces outside the institutions walls clearly are considerable bearing on that which transpires within. The external environment can provide both facilitating and inhibiting influences on organization’s performances. Multiple influences in the immediate or proximal environment form the boundaries within which an organization is able to function, these influences likewise shape how the organization defines itself and how it articulates what is good and appropriate to achieve. (Journal of Organizational Charge Management Vol. 13 No. 6 2000)

Key dimensions of the environment that bear on the institutions include the administrative/legal, technological, political economic, social, cultural and, the demands and needs of external clients and stakeholders.

Nzoia's external environment has changed over the period under review as follows:

By the Sessional Paper No.1 of 1986, there was relaxation of import restrictions in the form of tariffs and quotas.

Removal of price control on a number of commodities, sugar being one of them

The policy framework on economic reforms of the period 1996-1998 reports that the government has since mid-1993 made significant reforms which led to removal of foreign exchange controls, trade restrictions, tariff rates, introduction of domestic markets liberalization. This has led to competition from COMESA.

Inflation and exchange rate have been fluctuating rapidly and has affected company performance since a lot of factory spares are purchased in foreign currency.

The contentious issues in the Sugar Act 2001 with the introduction of new Act, the company has to comply with the requirement in carrying out its business and this involve extra costs.

1.3 Statement of the Problem

The International business has become increasingly global in nature and is now technologically driven. The sugar industry has been affected by these trends. It is imperative that the company continuously adopts these changes. This requires a continuous analysis of the external environment and the frequent changes occurring there in, in order to maintain competitiveness and sustainability.

The Sugar Industry in Kenya is facing many challenges from the external environment. Organizational determinists see the organization as being in constant interaction with the environment within which it exist. They argue that because a company is dependent on its environment for survival, that environment constrains the kind of choice an organization can make about how it structures itself. Lawrence and Lorsch (1967).

Nzoia Sugar Company Limited like the other sugar firms in the industry is facing challenges from the external environment such as technological advancement in the production line, competition from national and international circles, with cheap subsidized sugar in the market, changing legislation with the new sugar Act 2001 and high costs of imported inputs due to inflation, there by rising the cost of production.

Burns and Stalker (1961) in their study to establish the relationship between management system and organizational tasks, wanted to know how management systems changed in

response to changes in the commercial and technical tasks of the firm. They discovered that the response depended on the nature of environment in which a firm operated.

Lawrence and Lorsch (1967) argued that the level of uncertainty in the environment that a firm has to cope with will determine the organizational structure that is most appropriate for it.

A number of studies have been conducted in evaluating how organizations have responded to environmental changes, such as Aosa (1992), Chune (1998), Bett (1995), Njau (2000), Thiga (2002), Cheluget (2003), Bwibo (2000) and Okunyanyi (1999) among others whose studies established that organizations have responded differently to challenges in the changing business environment.

Since Okunyanyi's (1999) study on Kenyan Sugar Firms failure to compete effectively within the liberalized trading environment we have seen Mumias Sugar Company being privatized, Nzoia, Sony and Chemelil struggling to survive, other private firms coming up , for example West Kenya Sugar Company and many small molasses factories.

The study therefore sought to identify the various environmental challenges that have impacted on the Nzoia Sugar Company Limited and how it has responded.

1.4 Objective of the Study

To determine how Nzoia Sugar Company has responded to various changes in its external environment.

1.5 Importance of the Study

To policy makers both in the Government and the sugar industry may gain the knowledge of the problems in Nzoia Sugar Company and assist in policy issues

To Nzoia Sugar Company who will use the findings of this study to correct the wrongs and improve the rights.

To scholars who may wish to know how Nzoia Sugar Company has responded to the external changes in the challenging external environment.

To other sugar millers who would use the findings of the study to copy or improve on the strategies used by Nzoia Sugar Company in responding to its external environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Organizations and Their Objectives

Mullins (1986) defines organization's objectives as setting out more specifically the goals of the organization, the aims to be achieved and the desired end-results. The objectives of an organization are related to the input-conversion-output cycle. In order to achieve its objectives and satisfy its goals the organization takes inputs from the environment, through a series of activities, transforms or converts these inputs into outputs and returns them to the environment as inputs to other systems.

According to Macmillan and Tompoe (2000) the organization's external environment is composed of major stakeholder groups together with other factors, such as technological development, the state of the industry, and the nature of the labour market. The dominant groups in the external environment are usually the organization's customers, shareholders, suppliers and the representatives of the community at large. The activities of these groups have the greatest repercussions on the organization.

Barnard (1938) theorized that an organization's survival depends on its ability to sustain a balance with its external environment by readjusting its internal process to match the various elements in the environment. He examined the impact that environmental uncertainty had on organizational strategy. He argued that the primary reason for the uncertainty was the inability of manager to comprehend all the information present in a given environmental situation.

Objectives are organizational targets, usually for periods of one year or less. Cole (2000). They represent the intended out comes of the organizations efforts to meet the day to day needs of its customers and other direct stakeholders.

Objectives according to Cole (2000) are subject to frequent amendment as the organization responds to changes in its income and expenditure. Objectives are short-term and specific intentions of the various operational units of the organizations. They are usually incorporated in the annual plans or budget, he argued.

The responsibility of achieving them is normally shared between middle and senior management. Cole (2000) explained a number of important criteria needed to be considered in objective setting if the objectives are to be viable. He summarized them as follows:

They should further the purpose and strategic aims of the organizations.

They should be realistic in the circumstances

Their achievement should be measurable (in terms of time, quantity, quality cost or a relevant ratio).

Objectives should preferably be set by agreement, so that those responsible for carrying them out have some “ownership” of them.

Objectives should set clean and challenging targets for individuals.

Objectives should be open to adaptation in the light of changing circumstances, especially where these are unforeseen.

Groups of objectives set for individuals or groups, should not be in conflict with each other, but should serve a common purpose and direction.

Since market liberalization in Kenya, firms have been struggling with external competition that they were ill prepared for. The Sugar Industry has not been spared either with Miwani, Muhoroni under receivership, Ramisi total collapse, Chemelil just coming up from receivership and Nzoia struggling to survive after entering its first positive profit in the year 2003/04 financial year.

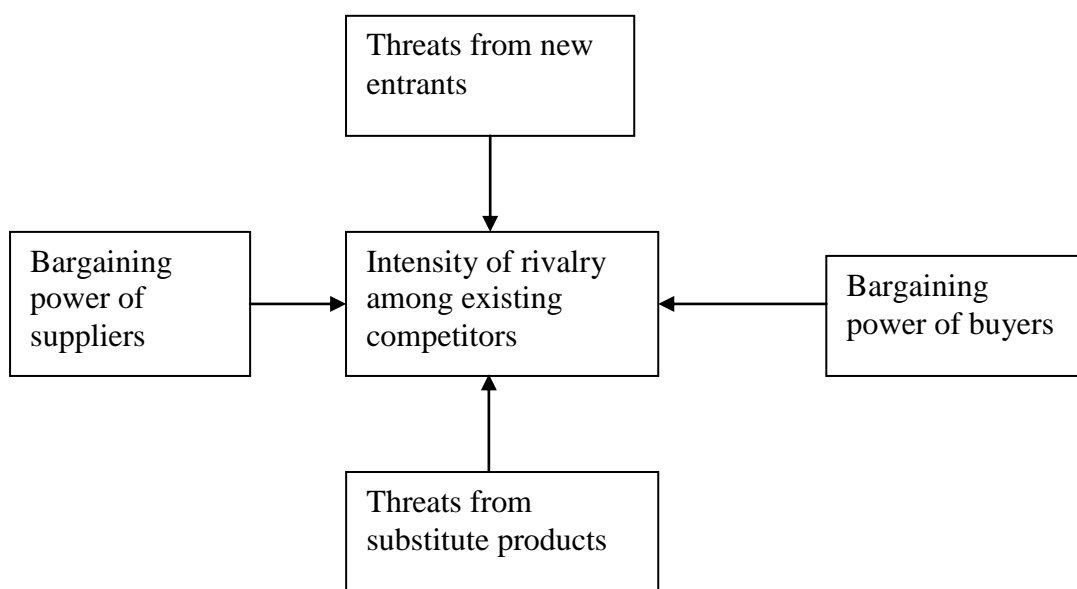
Organizations scan the environment in order to understand the external forces of change so that they may develop effective responses, which secure or improve their position in the future. They scan to avoid surprises, identify threats and opportunities, gain competitive advantage and improve long-term and short-term planning. (Journal of Organizational Change Management Vol. 13 No. 6 2000).

The organization must continuously respond to environmental changes for survival to the extent that an organization’s ability to adapt to its outside environment is dependent on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode of organizational learning. Aguilar (1967)

According to Porter (1985), organizations have to keep scanning the environment to be able to remain competitive. Porter proposed a five-force model of what he termed determinants of industry profitability. The ability of a company or an industry as a whole to be profitable will

depend upon its strength vis a vis five economic forces. An industry with a strong position on the five forces will enable higher profits to be achieved.

Table 1.3: Michael Porter’s five forces of industry profitability



Source: Michael E. Porter, 1985 Competitive advantage: creating and sustaining superior performance.

Porter’s five forces of industry profitability can explain well the sugar industry in Kenya. There is intense competition among the existing sugar firms and every firm is trying to outdo the other in order to maintain its market share and increase its market.

Organizations that recognize the changing turbulent conditions of their environment yet pursue simplicity in their internal organizational arrangement, defy the prescription of contingency theorist who argue for creating more organic structure when the environment is turbulent. These organizations also defy the prescriptions of Ashby (1956) and Weick (1979) when they do not attempt to match internal variety with external variety.

The theoretical explanation for their behaviour is offered by Boisot and Child (1999) who suggest that those organizations strive to reduce complexity that underlies the variety in the environment because they “elicit the most appropriate single representation of that variety

and summon up an adapted responses to match it” Boit and Child (1999). “Journal of Organizational Change Management Vol.13 No.6 (2000)

2.2 The External Environment and the Organization

In the introduction, the concept of external environment was explained “as factors/conditions that are beyond the direct control of influence of an organization”.

West (1988) examined the relationship of organization strategy and environmental scanning to performance in the US food service industry. Data was collected from 65 companies from 1982-86. Strategy was classified according to Porter’s (1985) typology of product differentiation, low-cost, leadership and niche focus.

The study found that strategy and environmental scanning had a substantial influence on the firms return on assets and return on sales.

The structure, management and functions of an organization is not only determined by internal consideration and choices but also strongly influenced by a range of external environmental factors.

Organizations that are highly centralized and formalized have less freedom to spontaneously reconfigure themselves because of their rules. These types of organizations can be seen as less complex because of the limited range of information exchange options specified by the rules.

Alternatively, organizations that are relatively decentralized and less formal have more opportunities to spontaneously reconfigure themselves as a consequence of information exchange relationships and are not hampered by rules.

Draft (1988) study of scanning by chief executives found that executives of high-performing firms (those with higher return on assets) increased the frequency, intensity and breath of their scanning as external uncertainty rose.

Subramanian (1993), studied scanning and performance in US fortune 500 companies and found support for a relationship between performance, measured by profitability and growth, and advanced scanning systems. Firms using advanced systems to monitor external events showed higher growth and profitability than firms that did not have such systems.

In an in-depth case study of environmental scanning at the Georgia centre for continuing Education, Murphy (1987) concluded that scanning is an important component of the organizations strategic planning process, improving the centre's ability to react and to implement change in response to external factors.

2.3 The Concept of Strategy

Several authors have defined strategy in terms of the relationship between an organization and its environment. Ansoff (1984) defined strategy "as the positioning and relating of the organization to its environment in a way which will assure its continued success and make it secure from surprises".

Glueck and Javeh (1984) defined strategy as:

"A unified comprehensive and integrated plan that relates to strategic advantages of the organization to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprises are achieved through proper execution by the organization".

One of the earliest definitions of strategy comes from the Greek writer Xenophon who defined strategy as: "strategy is knowing what you propose to carryout". Hugh and Tampoe (2000).

This definition stresses that strategy requires knowledge of the business an intention for the future and an orientation towards action.

The definition also emphasizes the link between leadership and strategy formulation.

Andrews (1971) defined strategy as: "The pattern of major objectives purposes or goals and essential policies on plans for achieving those goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be". This definition of strategy is concerned with both purpose and the means by which purpose will be achieved.

It implies that strategy must address the fundamental nature of the business in the future. This suggests that strategy will be sensitive to value and culture as well as to business opportunity. It also implies that managers are able and responsible for making deliberate choices about the future nature and scope of their business.

Ohmae (1983) defines strategy as: “The way in which a corporation endeavours to differentiate itself positively from its competitors using its relative strengths to better satisfy customers needs”.

This definition addresses both the competitive aspects of strategy and the need to build capabilities. It explicitly mentions customers and the satisfaction of their needs as a driver strategy.

2.4 Studies on Environmental Responses

School of Management, The University of Michigan – Dearborn, USA by Kumar, Subramanian R, Strandholm K. in their study “Market and Efficiency” – based on Strategic Responses to Environmental Changes in the Healthcare Industry” their study examined linkages between perceived environmental changes in the healthcare industry, corresponding strategy adoptions and their impact on selected performance measures as reported by managers.

From a result of a sample of 187 hospitals indicated that efficiency oriented strategy is chosen more often by organization that perceive their industry environment to be relatively stable and certain, while market focused strategies are chosen more often by organizations that perceive greater environmental instability and uncertainty.

When McDonald’s the restaurant chain went to Moscow in January 1990 shortly before the demise of the Soviet Union , a task force of MacDonalD’s trainers from Canada was imported to teach the staff the job. As per McDonald’s policy the customer is to be served exactly the same food and drink as they would get in any other MacDonalD’s outlet in the world. The company went to extraordinary lengths to ensure that this happened. The company contracted Russian farmers to produce beef and potatoes. It imported its own beef semen to ensure the quality of the beef cattle and taught Russian farmers on beef farming. It also imported and planted Russian Burbank potatoes to maximize their harvest. They sent Russian staff to train in Montreal Canada and Chicago to learn doing things the MacDonalD’s way. In doing all these MacDonalD’s had to adapt its environment in order to survive in Russia.(The Economist, 18 November 1989, pg.62)

2.4.1 Environmental Responses Studies in the Companies in Kenya

Studies carried out in the companies in Kenya revealed that different companies have responded differently to competition depending on a number of factors as found out by Aosa (1992) in his study on aspects of strategy formulation and implementation within large private manufacturing companies in Kenya.

Aosa (1992) found that foreign companies were significantly different from local companies in their involvement in strategy development, in that they had written mission statement and strategic plans more than the local companies. Indigenous Kenyan companies were more involved in strategy development than their Indian Kenyan counterparts.

Companies that served both foreign and domestic markets were significantly more formal in strategy development than those that served domestic markets only.

Professionally run companies operated with longer planning horizons, written mission statements and strategic plans. Professionally run companies were more involved in strategy development than family ones.

Aosa (1992) in his study found out that companies responded differently due to:

- i) Presence of both legal and illegal competition
- ii) Political and government influences on competition
- iii) Concentration of the industry and existence of markets
- iv) Sizes, origin and character of companies
- v) Environmental differences existing between developed and developing countries
- vi) Environmental forces and company circumstances that influenced management and Kenya were not similar to those prevailing in developed countries.

There were significant variations between companies in Kenya, yet they operated within the same broad Kenyan business environment. Therefore the variations in strategic practices were due to differences in company characteristics.

Hoffman and Hegarty (1989) observed that even where external environment profiles were similar differences in company characteristics could lead to variations in practices. This appeared to be the case for companies operating in Kenya according to Aosa (1992).

Chune (1998) in his studies on “Changes in business environment in Kenya: A case study of their influences on food manufacturing firms in Nairobi”, found out that, old firms find it difficult to invest in new technology as this is expensive. The nature of food products is such that most have a long product life cycle. As such, food manufacturers studied exhibited strategies that concentrated on brand extension.

The study found that the competition was being felt from imported products and it was difficult to sustain boards due to increased competition and brand switching has been a company’s products as opposed to those of competitors.

The firms indicated that consumer tastes and competition is key in determining the number of brands and factors in the external environment dictated the decision taken internally to respond to the change.

Product quality was cited by many firms as the most effective option to counter competition, while others indicated prompt service and timely delivery of products as strategy to counter competition.

Bett (1995) found that firms in the dairy industry had made some substantial adjustment to their strategies targeting branding, pricing and value proportion.

Kombo (1997) in his study of firms in the motor industry found out that the firms are adapting their strategies to fit the environmental shift.

Njau (2000) in a study of E.A. Brewery established that they responded by keeping off the competition from Castle Brewery by combined manipulation of marketing mix elements of cost control and setting up of foreign distribution channels.

Thiga (2002), on the “Study of Strategic Responses of Airlines Operation in Kenya in the Face of Changing Business Environment” concluded that many airlines have resulted to strategic alliances to cut costs and remain competitive. The emerging threat of security is putting the small airlines out of business because of the capital outlay involved in meeting the required security standards.

Cheluget (2003) A Study of responses to Milk Processing Firms to Increased Turbulence in the macro Environment of Dairy Industry in Kenya, a Case Study of New K.C.C. Ltd found out that, the environmental factors were responded in different ways in order to survive the competitive dairy industry such as:

It responded both strategically and operationally. Strategies are long term and embrace the organization as a whole while operational are the departmental services of any organization. They included foregoing their foreign market and concentrate on domestic market; Product development was prominent, liquidation measures were to increase its liquidity; Retrenchment was also undertaken to reduce costs of operations and increase efficiency; Differentiated and branded its products to boost brand loyalty; it focused on geographic market; it underwent ownership and management changes; Aggressive advertising and marketing. The responses were reactive rather than proactive.

Bwibo (2000) “A survey of Strategic Change Management Practices Within Non-Governmental Organizations in Kenya” he found out that majority of Kenyan NGOs see the need for strategic changes and prepare a formal, explicit long term plans and the plans are important for fundraising and internal control. The factor analysis revealed that structure is the most important factor that influences successful implementation of strategic change movement in Kenyan NGO’s.

Gekonge (1999) asserts that a strategic plan is an effective tool in helping firms to responding successfully to environmental demands. It should help them identify the threats and avoid the external environment thereby enhancing the chances of business success in the future.

2.4.2 Environmental Responses in the Sugar Industry

Okunyanyi (1999) “Study on Why Kenyan Firms are Failing to Compete Effectively Within the Liberalized Trading Environment in Kenya, A Case of Government Sugar Firms”, he found out the following reasons:

- The imported sugar was not taxed,
- Local cane was of poor sucrose content,
- Lack of modern production facilities too old machines,
- Harsh tax regime in Kenya,
- Untimely payment to farmers,
- Poor extension facilities and inadequate credit facilities demoralized farmers
- Over establishment in the firms,
- Lack of research and development programmes in the firms,
- Lack of required skills.

However, the study found out that some firms in the industry were putting in place measures aimed at containing the environmental changes that has come to be the norm in the Kenyan business environment today.

According to Aosa (1992), companies responded differently to the competition depending on environmental factors that are prevailing in their external environment, and even where external environmental factors were similar, differences in characteristics of these firms could lead to variations in practices and responses.

Okanyanyi (1999), study found out that some firms in the industry were putting in place measures aimed at containing the competition and preparing for the liberalization but today we find a lot of problems in the industry. Some of the strategic decisions recommended by his study included:

- Employee retrenchment,
- Creation of more responsive departments,
- Increased emphasis on production efficiency ,
- Increased activity within the marketing departments,
- Increased training and development.

Tight budget control, required a lot of capital to implement, as such capital availability becomes very vital in deciding how to respond and when.

Muhoroni, Miwani are at the moment under receivership, Chemilil and Sony Sugar are struggling to survive and Nzoia Sugar Company is making some improvement and this makes a good case for study. How did they make it? What changes have they made in response to the challenges they are facing from the environment?

Nzoia is the 2nd largest producer of sugar in Kenya after Mumias Sugar. Nzoia Sugar Company is a parastatal under government control having seen that the government has the largest shareholding of 97.93%.

The study aimed to establish what challenges Nzoia Sugar Company has faced in its external environment and how the company has responded, having established the challenges that face the industry today and the fact that Nzoia Sugar Company has made a turn around from loss making to profit making organization.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Research Design

This was conducted through a survey design. The population of study was Nzoia Sugar Company. Survey design is ideal in obtaining a considerable amount of information since it serves the research purpose of description and explanation.

3.1 Data Collection Method

The study relied on primary data. The questionnaire had both closed and open-ended questions. This was Scheduled- Structured Interview where the number of questions and the wording of questions were identical for all the respondents. In a structured interview the sequence in which the questions are asked are the same in every interview to make sure that any variations between responses can be attributed to the actual differences between the respondents and not to variations in the interview. Nachmias and Nachmias (2000) Targeted respondents were the top management of the Nzoia Sugar Company Limited, that is the , Managing Director and all Heads of Departments. This category of staff are more familiar with the company's business as compared to the other categories of staff.

3.2 Data Analysis

Data collected was edited for accuracy, uniformity, consistency and completeness, to enable coding and tabulation before final analysis.(Cooper and Emory, 1998).

Descriptive statistics and Statistical Package for Social Scientists was used to analyse the data. The findings are presented in tabular, graphs and percentages.

CHAPTER FOUR

4.0 DATA ANALYSIS PRESENTATION AND INTERPRETATION

INTRODUCTION

The study involved Nzoia Sugar Company Limited. A total of 8 respondents were interviewed, drawn from the top management of the company. The results have been summarized and presented in tabular form. The analysis was done by Statistical Package for Social Scientists (SPSS) basing on views of Nzoia Sugar Company Management staff on the changes in its external environment.

4.1 STUDY FINDINGS

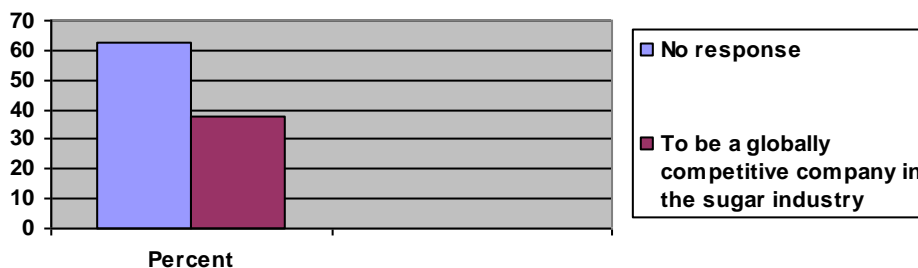
TABLE 4.1.1 RESPONSES WHY NZOIA SUGAR COMPANY WAS ESTABLISHED

| | Frequency | % |
|--|-----------|-------|
| To be self sufficient in sugar production , employment and sugar importation | 4 | 50.0 |
| Alleviate rural urban migration, | 3 | 37.5 |
| to improve rural infrastructure, self sustaining in sugar | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the findings of Table 4.1.1, 4(50%) responded that the company was established for self-sufficiency in sugar production, to curb sugar importation and for employment while 3(37.5%) responded that the company was established to alleviate rural-urban migration and only 1(12.5%) responded that it was to improve rural infrastructure and self sustaining in sugar.

Table 4.1.2 RESPONSES ON THE COMPANY’S VISION AT ESTABLISHMENT



Source: Data from Field Study, 2006

The above bar graph 4.1.2 indicates that 62.5% of the respondents had their vision as to be a globally competitive company in the sugar industry and mission as to efficiently produce sugar and co-products and 37.5% had no response this indicates that its main vision was to be a globally competitive company in the sugar industry.

Table 4.1.3 RESPONSES ON THE COMPANY’S MISSION AT ESTABLISHMENT

| | Frequency | Percentage |
|---|-----------|------------|
| No response | 5 | 62.5% |
| To efficiently produce sugar and co- products in a safe environment | 3 | 37.5% |
| Total | 8 | 100.0% |

Source: Data from Field Study, 2006

The results from the study show that 37.5% of the total population responded that the mission was to efficiently produce sugar and co-products in a safe environment, while 62.5% had no response. This implies that the Company was not sure of it’s mission at establishment.

Table 4.1.4 RESPONSES ON THE COMPANY’S CORPORATE PLAN AT INCEPTION

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 3 | 37.50% |
| Yes | 2 | 25.00% |
| No | 3 | 37.50% |
| Total | 8 | 100.00% |

Source: Data from Field Study, 2006

From table 4.1.4., 37.5% respondents had no response and 37.5% respondents said No the company had no corporate plan at inception with 25.0% respondents response that the plan was there at inception this shows that Nzoia Sugar Company had no corporate plan at inception and there were no details on the corporate plan.

Table 4.1.5 RESPONSES ON STAKEHOLDERS OF NZOIA SUGAR COMPANY

| | Frequency | Percentage |
|---|-----------|------------|
| Government, IDB Bank, Fives Cail Bablock, Farmers | 8 | 100.0 |

Source: Data from Field Study, 2006

The table 4.1.5. it indicates that 100% of the total respondents that the stakeholders of Nzoia Sugar Company are Government of Kenya, the Board of Directors, IDB Bank, Fives Cail Bablock and Farmers.

Table 4.1.6 RESPONSES ON ORGANIZATION STRUCTURE AT INCEPTION

| Response | Frequency | Percentage |
|---|-----------|------------|
| No response | 7 | 87.5 |
| Board of Directors - CF-HOM-AM FM-PTM -CS/LO | 1 | 12.5 |

Source: Data from Field Study, 2006

From the table 4.1.6. , 87.5% of the total respondents did not respond (No response) and only 12.5% of the total respondents had a hierarchy of Board of Directors General Manager Chief Accountant Head of Mechanization Agricultural Manager, Factory Manager, Personnel and Training Manager and legal officer. This indicates that at inception there was no good organizational structure.

Table 4.1.7 RESPONSES TO WHETHER NZOIA SUGAR COMPANY IS FACED WITH CHALLENGES

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 1 | 12.5 |
| Yes | 7 | 87.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

7 (87.5%) of the total respondents accepted that Nzoia Sugar Company is faced with challenges while 1 (12.5%) had no response.

Table 4.1.8 RESPONSES TO WHETHER THE SUGAR ACT 2001 IMPLEMENTATION AFFECTED NZOIA SUGAR COMPANY

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 2 | 25.0 |
| Very Seriously | 1 | 12.5 |
| Seriously | 2 | 25.0 |
| Moderately | 3 | 37.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the findings on table 4.1.8, 37.5% of the total population responded that the Sugar Act implementation has seriously affected Nzoia Sugar Company. 37.5% also responded that the Act affected Nzoia Sugar Company moderately while 2 (25.0%) had no response thus showing the company is affected by the Sugar Act implementation.

Table 4.1.9 RESPONSES ON WHETHER LOCAL POLITICS HAS AFFECTED NZOIA SUGAR COMPANY

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 2 | 25.0 |
| Very Seriously | 3 | 37.5 |
| Seriously | 1 | 12.5 |
| Moderately | 2 | 25.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The above table 4.1.9. indicates that 37.5% of the total population responded that local politics has affected the company very seriously and 1 (12.5%) responded that politics has seriously affected, 2(25%) moderately affected and 2(25%) had no response .

Table 4.1.10. RESPONSES ON STATE FUNDING/GRANTS, LIBERALIZATION AND GLOBALIZATION

LIBERALIZATION

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 2 | 25.0 |
| Very Seriously | 2 | 25.0 |
| Seriously | 4 | 50.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

GLOBALIZATION

| | Frequency | Percent |
|----------------|-----------|---------|
| No response | 1 | 12.5 |
| Very Seriously | 2 | 25.0 |
| Seriously | 4 | 50.0 |
| Moderately | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

STATE FUNDING/GRANTS

| | Frequency | Percent |
|----------------|-----------|---------|
| No response | 1 | 12.5 |
| Very Seriously | 2 | 25.0 |
| Seriously | 4 | 50.0 |
| Moderately | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From table 4.1.10. analysis, Nzoia Sugar Company has been seriously affected by state funding/grants at 75.0% seriously and 12.5% moderately with 12% no response. Liberalization also has affected NSC at 75% seriously and 25% no response. On

globalization 75.0% of the total population responded that globalization has affected the company seriously with 12.5% moderately and 12.5% with no response.

Table 4.1.11 RESPONSES ON DOUBLE TAXATION AND HIGH TAXATION ON RAW MATERIALS

DOUBLE TAXATION

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 1 | 12.5 |
| Very Seriously | 5 | 62.5 |
| Moderately | 1 | 12.5 |
| none at all | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

HIGH TAXATION ON RAW MATERIALS

| | Frequency | Percent |
|----------------|-----------|---------|
| No response | 2 | 25.0 |
| Very Seriously | 4 | 50.0 |
| Seriously | 1 | 12.5 |
| Moderately | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

Double taxation has affected Nzoia Sugar Company and seriously at 62.5% and 12.5% moderately with 12.5% indicating that it has not affected it at all as shown in the tables.

High taxation on raw materials has affected Nzoia Sugar Company with 4 (50.0%) of population terming it very seriously ,(12.5%) seriously and(12.0%) moderately.

Table 4.1.12 RESPONSES TO GOVERNMENT DELAY IN STRUCTURING THE INDUSTRY'S DEBT

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 1 | 12.5 |
| Very Seriously | 7 | 87.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From table 4.1.12 above the government delay in restructuring the industry's debt has affected the company with 7 (87.5%) of the total population having a response of very seriously and 1 (12.5%) of the total with no response.

Table 4.1.13 RESPONSES ON CONFLICTING LEGISLATION AND LACK OF POLICIES

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 1 | 12.5 |
| Very Seriously | 3 | 37.5 |
| Seriously | 3 | 37.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the table 4.1.13 above, conflicting legislation and lack of policies had 7 (85.0%) of the total population and 1 (12.5%) had no response thus indicating that legislation and lack of policies as an external factor has really affected the company.

Table 4.1.14 RESPONSES ON MULTIPLICITY OF TAXES ON THE INDUSTRY

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 1 | 12.5 |
| Very Seriously | 3 | 37.5 |
| Seriously | 4 | 50.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

This has affected Nzoia Sugar Company seriously having 7 (87.5%) of the population showing the effect and only 12.5% having no response.

Table 4.1.15 RESPONSES ON POOR ROADS

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 1 | 12.5 |
| Very Seriously | 1 | 12.5 |
| Seriously | 6 | 75.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the table above 75% of the population indicates that poor roads have really affected Nzoia Sugar Company seriously and 12.5% very seriously and only 1 (12.5%) had no response.

Table 4.1.16 RESPONSES ON CANE POACHING

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 1 | 12.5 |
| Seriously | 2 | 25.0 |
| Moderately | 5 | 62.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The Table above shows that 62.5% of the total population had cane poaching affecting the company moderately and 2 (25%) seriously. This indicates that cane poaching has been also an external factor, which affects Nzoia Sugar Company. The stolen cane is taken to juggleries that have mushroomed in the area licensed by Kenya Sugar Board and illegal ones.

Table 4.1.17 RESPONSES ON INFORMATION TECHNOLOGY ADVANCEMENT AND MODERN MACHINERY

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 1 | 12.5 |
| Seriously | 2 | 25.0 |
| Moderately | 5 | 62.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the tables 4.1.17, above information technology advancement and modern machinery has affected Nzoia Sugar Company seriously with a percentage of 87.5% and 12.5% no response. Thus indicating that technology as an external factor has affected the company seriously. In that technology has placed demands that cannot be handled by the company – though the company is trying to implement it since it is obsolete and there is need to catch up as it was found from the study.

Table 4.1.18 RESPONSES ON CHANGES IN CUSTOMER TASTE/MARKET AFFECT NZOIA SUGAR COMPANY

| | Frequency | Percent | Valid Percentage | Cumulative Percent |
|----------------|-----------|---------|------------------|--------------------|
| No response | 2 | 25.0 | 25.0 | 25.0 |
| Very Seriously | 1 | 12.5 | 12.5 | 37.5 |

Source: Data from Field Study, 2006

From the table 4.1.18 above customer taste and market has seriously affected Nzoia Sugar Company with a response 25% seriously and 50% moderately. Sugar had to be packaged in 2kg, 1kg and 1/2kg packets as per customers demand and this involved a lot of investment in packaging machine and packaging materials.

Table 4.1.19 RESPONSES ON COMPETITION**LOCAL**

| | Frequency | Percentages |
|----------------|-----------|-------------|
| No response | 2 | 25.0 |
| Very Seriously | 1 | 12.5 |
| Seriously | 1 | 12.5 |
| Moderately | 4 | 50.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

COMESA

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 3 | 37.5 |
| Very Seriously | 2 | 25.0 |
| Moderately | 2 | 25.0 |
| none at all | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

Competition in the industry locally and from COMESA has affected Nzoia Sugar Company seriously with 75% respondents and 25% not responding. This indicates that competition, as an external factor is an effect to the company due to stiff competition experienced from COMESA as it was found from the study. Competition of similar products from sister industries and government constraints by the government has also affected Nzoia Sugar Company.

Table 4.1.20 RESPONSES ON CHRONIC DISEASES, CULTURAL AND SOCIAL ENVIRONMENT**DISEASES**

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 2 | 25.0 |
| Seriously | 5 | 62.5 |
| Moderately | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

CULTURE

| | Frequency | Percentage |
|----------------|-----------|------------|
| No response | 2 | 25.0 |
| Very Seriously | 1 | 12.5 |
| Moderately | 5 | 62.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the tables above chronic diseases such as malaria, HIV/AIDS has affected Nzoia Sugar Company with a frequency of 5 (8) seriously, 1(8) moderately and 2 (8) no response. This indicates that 75% of the total population responded that these diseases are an external factor have really affected the company.

Cultural environment has also affected the company in that local community is adamant to change and diseases are becoming a threat, plot size are getting smaller and farmers are changing to other crops as opposed to cane because of the reduced plot sizes.

Table 4.1.21 RESPONSES ON CHALLENGES THAT EXTERNAL FACTORS CAUSE TO THE COMPANY

| | Frequency | Percentage |
|--|-----------|------------|
| No response | 1 | 12.5 |
| TIME IS WASTED BEFORE DECISION IS MADE | 2 | 25.0 |
| Forced to optimize all opportunities | 2 | 25.0 |
| Try the best to minimize the impact of the threats | 1 | 12.5 |
| Re-assess strengths and weaknesses | 2 | 25.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the study, external factors have forced the company to optimize all opportunities with a response of 25% and have made it to re-assess its strengths and weaknesses.

Table 4.1.22 RESPONSES ON PAYMENT OF CANE FARMERS WITHIN 30DAYS OF DELIVERY

| | Frequency | Percentage |
|--------------------------|-----------|------------|
| No response | 2 | 25.0 |
| NSC paying within 30days | 6 | 75.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The majority of the respondents (75%) indicated that Nzoia Sugar Company pays farmers within 30days of cane delivery while 25% gave no response. And this signifies that the Sugar Act as an external factor has in one way affected the Company.

Table 4.1.23 RESPONSES ON WEIGHING OF CANE AT FARMERS GATES

| | Frequency | Percentage |
|--|-----------|------------|
| No response | 1 | 12.5 |
| No implemented | 4 | 50.0 |
| Weighing still done at weigh bridges | 2 | 25.0 |
| The factory doesn't have the capacity to undertake the project | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The study revealed that 50% of the total population responded that the idea of weighing of canes at the farmers gates has not been implemented, 25% said that weighing was still done at the weigh bridges, 12.5% indicated that the factory doesn't have the capacity to undertake the project and only 12.5 gave no response. From the findings it indicates that the Company has not implemented fully the Sugar Act.

Table 4.1.24 RESPONSES ON HANDLING OF MILLER TO MEET COST OF HARVESTING & TRANSPORTATION TO FACTORIES FROM FARMS

The majority of the respondents (37.5%) indicated that farmers are encouraged to carry out private transportation 25.0% responded that the company has not implemented the Act and others with a low percentage showed that the cost is still being paid by farmers.

Table 4.1.25 RESPONSES ON KENYA SUGAR BOARD LICENSING POWERS

| | Frequency | Percentage |
|---|-----------|------------|
| No response | 2 | 25.0 |
| Not very effective due to increased Jaggaries | 4 | 50.0 |
| Acceptable as it is a regulatory body | 2 | 25.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The study on the company's way of handling KSB Licensing powers showed that 50% said it wasn't effective because of many illegal jaggeries in the area, 25% said that it is acceptable because it is a regulatory body, while 25% had no response this indicates that there is effective acceptance of the powers.

Table 4.1.26 RESPONSES ON VISION, MISSION AND OBJECTIVES CHANGED IN THE LAST 10 YEARS.

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 1 | 12.5 |
| Yes | 6 | 75.0 |
| No | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

The findings from the study showed that 75% of the population accepted that the Mission, Vision and Objective have changed and each department has its own.

Table 4.1.27 RESPONSES ON FACTORS THAT LED TO CHANGE.

| | Frequency | Percentage |
|-------------------------|-----------|------------|
| No response | 1 | 12.5 |
| Customer behaviour | 2 | 25.0 |
| Obsolete Technology | 3 | 37.5 |
| Performance improvement | 2 | 25.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the table 4.1.27 Obsolete Technology has a highest percentage, customer behaviour and performance improvement to counter the competition are the major external factors that has led to change in the company.

Table 4.1.28 RESPONSES ON OBJECTIVES TO BE ACHIEVED IN CHANGE

| | Frequency | Percentage |
|-------------------------------------|-----------|------------|
| No response | 2 | 25.0 |
| Increased Efficiency | 3 | 37.5 |
| High productivity and effectiveness | 3 | 37.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the above table increased efficiency, high productivity and effectiveness having a percentage of 37.5% are the major objectives that are to be achieved in the change of the company.

Table 4.1.29 RESPONCES ON CHANGES RESULTED TO IMPROVED PERFORMANCE FOR NZOIA SUGAR COMPANY

| | Frequency | Percentage |
|---|-----------|------------|
| No response | 2 | 25.0 |
| Registered operating profile in two consecutive years | 2 | 25.0 |
| Steady improvement in products | 4 | 50.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the study changes have resulted to improved performance of the company in that 50% said that there was steady improvement in products. 25% had registered operating profits in two consecutive years.

Table 4.1.30 RESPONSES ON NECESSARY CAPABILITIES TO MATCH INTERNAL RESOURCES WITH THE EXTERNAL ENVIRONMENT

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 2 | 25.0 |
| Yes | 5 | 62.5 |
| No | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the table 4.1.30, 62.5 % respondent that there are necessary capabilities to match internal resources with the external environment. While 12.5% said there are no capabilities and 25% had no response.

Table 4.1.31 RESPONSES ON ORGANIZATION STRUCTURE AFTER ADDRESSING THE CHALLENGES

| | Frequency | Percentage |
|--|-----------|------------|
| No response | 2 | 25.0 |
| New departments formed | 2 | 25.0 |
| Specific focus and objective for each department | 4 | 50.0 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the study table 4.1.31, 50% responded that the organization structure has changed and specific focus and objective for each department achieved. While 25% said that new departments have been formed to address the challenges e.g. they now have a Public Relations Department, and Marketing Department

Table 4.1.32 RESPONSES ON WHETHER NSC HAVE DOCUMENTED PLAN TO SUPPORT THE CHANGES PUT IN PLACE

| | Frequency | Percentage |
|-------------|-----------|------------|
| No response | 2 | 25.0 |
| Yes | 5 | 62.5 |
| No | 1 | 12.5 |
| Total | 8 | 100.0 |

Source: Data from Field Study, 2006

From the above table 4.1.32 , 62.5% responded that there is a strategic plan to support changes that has been put in place while 12.5% said there isn't and 25% no response.

Table 4.1.33 RESPONSES ON PLANS TO SUPPORT THE CHANGES TO BE PUT IN PLACE

| | Frequency | Percentage |
|----------------------------|-----------|------------|
| No response | 1 | 12.5 |
| Factory rehabilitation | 3 | 37.5 |
| Cane Development | 1 | 12.5 |
| Infrastructure improvement | 1 | 37.5 |
| Total | 8 | 100.0 |

From the table the major changes sited in the strategic plan are Factory rehabilitation with 37.5%, Infrastructure 37.5% and Cane Development with 12.5%. Only 12.5% did not respond.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSION

5.1 SUMMARY

According to Cole (2000) the external environments in which organizations operate have been changing and the scenarios presented by these changes are complex which have required organizations to look well beyond their boundaries.

This study was checking how Nzoia Sugar Company Limited responded to these changes in its external environment.

The respondents indicated by 62.5% that the company at establishment had their vision as to be a globally competitive company in the sugar industry.

The respondents also indicated by 75%, that the company has had its vision, mission and objective changed in the last ten (10) years. The mission, vision and objectives have changed and each department has their own. The statement would compare with Buchanan and Huczynski (1991) argument that organizations are being in constant interaction with the environment within which they exist and some environmental determinist argue that success of an organization depends on securing a proper fit or alignment between itself and its environment hence the changing to cope in order to survive..

The study findings indicated by 37.5% respondent that there was no corporate plan at inception and only 25% indicated there was a plan at inception.

The study showed that the company is responding to the changes in its environment and agrees with Gekonge (1999) that Strategic Plan is an effective tool in helping firms to respond successful to environmental demands. The plan helps them identify the threats and opportunities in the external environment thereby enhancing the chances of business success in the future.

The respondents had a very poor response on the organization structure at inception. This indicates that at inception there was no clear organization structure.

According to Buchanan and Huczynski (1990), organization structure and its technology are a reflection of choices made by management based on their perception and interests.

Meaning departments are created by the influence of the Chief Executive Officer; hence only after inception can a proper structure follow.

87.5% of the respondents accepted that Nzoia Sugar Company is faced with challenges.

From the study, 50% of the respondent indicated that the organization structure has changed and specific focus and objectives for each department achieved while 25% indicated that new departments have been formed.

The respondents also indicated that the sugar Act implementation has seriously affected Nzoia Sugar Company. There was common agreement by 50% that local politics has affected Nzoia Sugar Company.

The study found out that state funding, liberalization and globalization has affected the company where 75% of population responded that liberalization has seriously affected Nzoia Sugar Company.

Double taxation and high taxation was cited as affecting the company, 62.5% responded very seriously and 50% very seriously respectively. The higher taxation increases the cost of production and inhibits competition from COMESA.

Majority of respondents 87.5% agreed that the government delay in restructuring the industry's debt is affecting the company.

87.5% of the population responded that conflicting legislation and lack of policies had affected the company's operations.

62.5% of the population responded that cane poaching has affected the company moderately and 25% seriously. A lot of money is wasted in security patrols to control cane poaching.

Information Technology advancement and use of modern machinery for sugar production has affected Nzoia Sugar Company with 87% responding seriously meaning technology has placed demands that cannot be handled by the company, since it has obsolete machinery and there is need to catch up as it was found from the study

Competition from both COMESA and locally has affected the company by 74% responding seriously for local industrial competition and 50% responding seriously for COMESA sugar.

Most of Sugar Act requirements have not been met or implemented by the company where 50% responded that cane is not weighed at farmer's gate, and that the company has no capacity to undertake the project.

From the study external forces have forced the company to optimize all opportunities and 25% responded that the company has been made to re-assess its strengths and weaknesses.

Chronic diseases, cultural and social environment have affected the company, with 75% of the population responding that HIV/AIDS and malaria have affected the company.

Cultural environment in that the local community is resistant to change and plot sizes getting smaller and farmers changing to other food crops.

From the study the challenges have resulted to improved performance for the company in that 50% of the population said that there was steady improvement in products and 25% responded that there has been increased profits in two consecutive years.

In all, the respondents responded that challenges have led the company to respond by factory rehabilitation 37.5%, cane development 12.5% and infrastructure 37.5%.

5.2 CONCLUSION

In conclusion the overall objective of the study was to determine how Nzoia Sugar Company has responded to various challenges in its external environment.

This study found out that Nzoia Sugar Company has responded to challenges in its external environment by: -

- Creating responsive departments;

- Redefining their new vision, mission and objectives for each department and the Company as a whole to respond to the challenges in their environment;

- Creating a Corporate Plan to respond to the challenges;

- Re-assessing its strength and weaknesses and optimized all opportunities;

- Factory rehabilitation to manage higher and efficient production;

- Improved infrastructure to manage cane transportation to the factory;

- Cane development to have improved varieties with high sucrose content.

According to the study obsolete technology, change in customers behaviour (taste) and performance improvements to cope with competition are some of the major external factors that led to change in the company.

5.3 LIMITATIONS OF THE STUDY

Most of the respondents were very impatient and complained that the questionnaire was very long and some of them could not complete it at one session and occasion. There was low response rate on some questions where respondents answered they did not know.

5.4 RECOMMENDATIONS

This study recommends further research should be done to determine effect of the Sugar Act 2001 implementation on the company's profitability and the impact of chronic diseases HIV/AIDS, Malaria and social environment has had on the company performance.

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QUESTIONNAIRE

SECTION A: Organizational Profile

To be completed by CEO and HOD

1. Name of Respondent
2. Rank
3. Department
4. When was Nzoia Sugar established?
5. How long have you been at Nzoia Sugar Company?
6. Why was Nzoia established? (Please explain in details; use a separate sheet of paper if necessary)
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.....
.....
7. What was Nzoia Sugar Company's Vision at establishment?
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8. What was Nzoia Sugar Company's Mission at establishment?
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.....
9. What was Nzoia's Objectives at establishment?
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9 (b) Did Nzoia have a corporate plan at inception? Yes/No

Give details.....

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10. Who are the stakeholders of Nzoia Sugar Company? List them in order of importance

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11. What was the number of employees at establishment?

a) Casuals/Unskilled

b) Technical

.....

.....

c) Heads of Department

d) Others

.....

.....

List them in designation

i) ii).....

iii) iv).....

v)..... vi).....

vii)..... viii).....

12. What was the organizational structure at inception?

SECTION B: Challenges In The External Environment Affecting Nzoia Sugar Company

1) Is Nzoia Sugar Company now faced with challenges originating from external environment? Yes/No

Below are some of the possible threats facing the sugar industry in Kenya?

Kindly indicate to what extent they have affected Nzoia Sugar Company.

Very serious

Seriously

Moderately

None at all.

2)

(a) Political/Legal Environment

| | (1) | (2) | (3) | (4) |
|--|-----|-----|-----|-----|
| Sugar Act 2001 implementation | [] | [] | [] | [] |
| Local politics of the region | [] | [] | [] | [] |
| Reduction or increase in State funding /grants | [] | [] | [] | [] |

(b) Economic Environment

| | (1) | (2) | (3) | (4) |
|--|-----|-----|-----|-----|
| Liberalization | [] | [] | [] | [] |
| Globalization | [] | [] | [] | [] |
| Exogenous factors affecting Cost of production e.g. | | | | |
| A)double taxation | () | () | () | () |
| B).high taxation on raw materials, | () | () | () | () |
| C}.delay by the Government to restructure the industry's debt load estimated at Ksh 37.2 billion/Indebtedness | () | () | () | () |
| D)conflicting legislation and lack of policies to address issues of diversification, | () | () | () | () |
| E)multiplicity of taxes on the industry e.g. Vat, Cess, Presumptive Income Tax, Corporation Tax, Pay As You Earn | () | () | () | () |

- | | | | | |
|------------------|-----|-----|-----|-----|
| F) Poor roads | () | () | () | () |
| G) Cane poaching | () | () | () | () |

(c) **Technological Environment**

- | | | | | |
|----------------------------------|-----|-----|-----|-----|
| | (1) | (2) | (3) | (4) |
| Information Technology | | | | |
| Advancement | [] | [] | [] | [] |
| Modern machinery in the industry | | | | |
| e.g. bailing, white sugar | [] | [] | [] | [] |
| Level of machinery usage in | | | | |
| Ploughing, harvesting. | [] | [] | [] | [] |

(d) **Customer Profiles/Tastes**

- | | | | | |
|--|-----|-----|-----|-----|
| | (1) | (2) | (3) | (4) |
| Changes in customer taste/market requirement | [] | [] | [] | [] |
| Packaging in printed packs | [] | [] | [] | [] |
| Culture | () | () | () | () |

(e) **Industrial Environment**

- | | | | | |
|-------------------------------------|-----|-----|-----|-----|
| | (1) | (2) | (3) | (4) |
| Competition in the industry locally | [] | [] | [] | [] |
| Competition from COMESA | [] | [] | [] | [] |
| Privatization | [] | [] | [] | [] |

f) **Social Environment**

- | | | | | |
|--|-----|-----|-----|-----|
| Diminishing plot sizes | () | () | () | () |
| Chronic diseases e.g Malaria, HIV/Aids | () | () | () | () |

(g) Others (Please Specify if not listed above)

3) What in details can you say on your answers on (2)

Political/legal environment

.....

Economic environment

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.....

Technological environment

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.....

Customer taste environment

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.....

Industrial environment

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.....

Cultural environment

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.....

Social

environment.....

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.....

Other ,explain on a deferent sheet where necessary.

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SECTION C: Strategic Responses to the External Environment

1) Has NSC Mission, Vision and Objectives changed in the last ten (10) years? Yes/No

State the new Mission, Vision and Objectives of NSC.

Mission

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.....
.....

Vision

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.....
.....

Objectives

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.....
.....

2) What external factors led to the above change?

Explain in details use a separate sheet.

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

3) What objectives does NSC hope to achieve in the change?

Explain.

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

4) Have the changes resulted to improved performance for NSC?

Explain.

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.....
.....

5) Does NSC have the necessary capabilities to match internal resources with the external environment? Yes/No.

6) If no, what plans does NSC have to acquire them?

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.....
.....

7) What is the organization structure now after addressing the challenge?

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

8) Does NSC have any strategic plan to support the changes it hopes to put in place? Yes/No.

9) If yes, outline major changes as sited in the strategic plan.

- i)
- ii)
- iii)
- iv)
- v)

9) Please feel free to include any other information that you deem relevant to this case study

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Thank you for your co-operation in answering this questionnaire.

Appendix II

Mohamed R.A.
P.O. Box 3900
ELDORET

Dear Sir/Madam,

**RE: RESEARCH ON “A STUDY OF RESPONSES OF NZOIA SUGAR COMPANY
TO CHANGES IN ITS EXTERNAL ENVIRONMENT**

I am a student at the University of Nairobi, doing my Masters degree in Business Administration (MBA). I am undertaking the above research project as part of the Academic requirements.

I will appreciate and be very grateful if you could spare sometime to complete the attached questionnaire answering questions carefully to the best of your knowledge.

The information shall be treated with utmost confidentiality and shall be used solely for this research. However, findings of this research can be availed to you upon completion of the research. No mention of your name will be made in report without your prior permission.

Kindly provide the required information.

Mohamed R.A
MBA Student

Mohamed R.A.
P.O. Box 3900
ELDORET

The Managing Director
Nzoia Sugar Co.
P.O. Box 285
Bungoma

Dear Sir,

RE: PERMISSION TO CARRY OUT A RESEARCH ON: RESPONSES TO
EXTERNAL ENVIRONMENT – A CASE OF Nzoia Sugar Company

I wish to request for your permission to carryout a study to assess Nzoia Sugar Company's responses to change in its external environment such as competition, political, legal, economic, cultural, etc.

Your authority will enable me finalize my MBA project and document the responses that NSC is undertaking or has undertaken so far to counter the challenges in its external environment.

Thanking you in advance.

Yours faithfully,

Mohamed R.A.